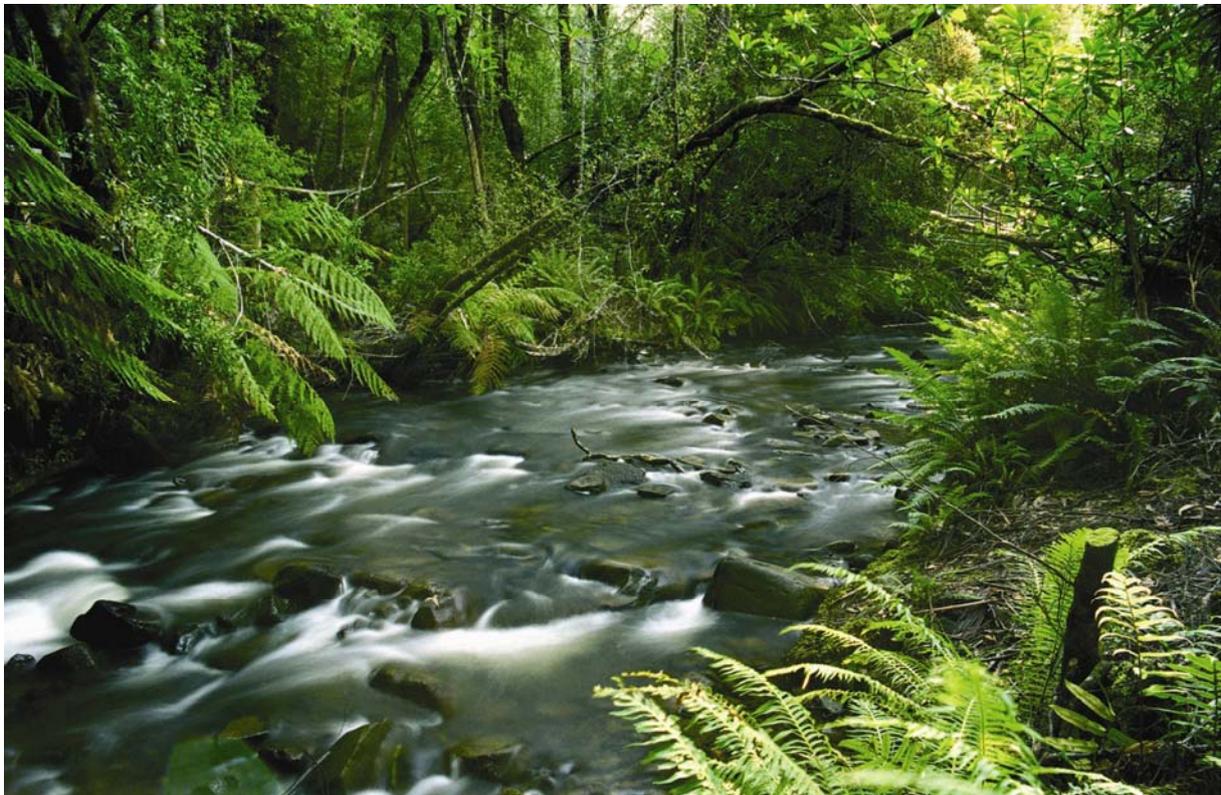


Australian Ethical[®] Investment

Sustainability Report 2005



for investors, society and the environment

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Chairperson's Statement

I would like to welcome you to the fourth Australian Ethical Investment Sustainability Report. As in previous years this report aims to provide stakeholders with information on the economic, environmental and social performance of the company. The report covers the reporting period from 1 July 2004 to 30 June 2005. Once again this document has been prepared with reference to the Global Reporting Initiative (GRI) 2002 Sustainability Reporting Guidelines. These guidelines are produced by the GRI, which is a multi-stakeholder independent institution whose mission is to:

“promote international harmonization in the reporting of relevant and credible corporate environmental, social and economic performance information to enhance responsible decision-making (GRI 2005a).”

Where relevant the report this year will underline the environmental impact of company operations. Hence the environmental impact of company operations will be used to show how information presented in those pertinent sections of the report can identify leverage points for positive change in company operations. In this way it is intended that this and future reports will begin to show how the economic, environmental and social indicators of Australian Ethical's performance are interconnected to the overall impact of company operations. This form of reporting will act as a reference point to show how Australian Ethical business operations have progressed with respect to company operations over time. It is hoped this will give the reader a clear and holistic picture of company performance and improve the readability of the report, along with the presentation of its data. It is also a long term goal of Australian Ethical to report 'in accordance' with GRI guidelines. To help readers follow Australian Ethical's incremental application of these guidelines, GRI Content Indexes are included at Appendices A and B. Further information about the GRI can be found at www.globalreporting.org.

Australian Ethical continues to grow steadily. The number of investors who share similar environmental and social aims has also grown. At 30 June 2005, Australian Ethical had 6,679 unit trust investors, 8,001 superannuation members and \$311 million in funds under management. This represents an increase of 1,436 investors/members and \$44 million more in funds under management since 30 June 2004.

Australian Ethical is strongly committed to its responsibility towards environmental and social sustainability. Company commitment is reflected in the Australian Ethical Charter (see page 6 of this report). The Charter, which is incorporated in the Australian Ethical Constitution, contains a set of 12 positive and 11 negative principles which Australian Ethical uses to conduct operations. Highlights during the year included a donation of \$58,262 to non-profit social and environmental groups in October 2004 through the company tithing program, offsetting of greenhouse gas emissions from staff travel and a record profit for the company.

Australian Ethical's investment performance has been solid in the period to the end of June 2005. Indeed compared to conventional investment trusts the Australian Ethical Large Companies and Balanced Trust have done very well. Both these investment trusts have ranked at the top for performance over one and three years and in the top three over five years compared to all other funds in their relevant categories.¹

I hope you find our fourth Sustainability Report both useful and informative. Please note we welcome any suggestions on how to improve its content and quality. To this end a feedback form is contained at the back of the report and on the Australian Ethical website (www.austethical.com.au) should you wish to take the opportunity to share your views.



George Pooley
Chairperson

¹ Money Management, 9 June 2005.

Australian Ethical's Vision

By its operations Australian Ethical will promote a sea-change in community-wide practice such that all investment will be undertaken with an ethical purpose as well as in pursuit of competitive return for chosen risk.

In addition to selecting every investment with which we are involved in accordance with the Australian Ethical Charter, Australian Ethical aims to conduct its operations in accordance with the tenets of the Australian Ethical Charter. In particular we seek to:

- ensure our promotional material is comprehensive, transparent and readily understood;
- achieve a high standard of administrative service for investors in our products;
- ameliorate wasteful or polluting practices in our own business operations;
- encourage, care for and provide educational opportunity for our fellow workers, respect their individual needs and aspirations; and
- nurture staff participation in the ownership and control of Australian Ethical.

Australian Ethical's Mission

Short form

for investors, society and the environment

Long form

Australian Ethical's mission is to provide those investors who share our social and environmental aims (as set out in our charter) with the means to earn a competitive return for chosen risk whilst at the same time contributing to a just and sustainable human society and the protection of the natural environment.

Date of adoption: 26 October 2001. Applies worldwide.

Company Profile

Australian Ethical Investment Ltd is Australia's longest running ethical investment house. Unlike other fund managers operating in this sector, Australian Ethical has always been solely focused on managing ethical funds.

The company was established in 1986 to enable the pooling of investor savings in environmental and socially responsible investments. It originally managed a private ethical trust, until 1989, when what is now the Australian Ethical Balanced Trust opened for public subscription. Australian Ethical became a publicly listed company on the Australian Stock Exchange in December 2002. As at October 2005 the company had \$380 million in funds under management on behalf of around 15,000 unitholders and superannuation members.

Australian Ethical is an independent funds manager based in Canberra. The company's stock exchange listing clearly states the organisation's key objective of supporting investments that benefit society and the environment through judicious investment both in Australasia and worldwide.

The Australian Ethical Balanced Trust invests in a broad range of asset classes including cash and securities (term deposits and small business loans), equities (shares listed on the stock exchange) and property. The Australian Ethical Equities Trust (launched in November 1994) focuses on listed and unlisted company shares. The Australian Ethical Income Trust and the Australian Ethical Large Companies Share Trust (both established in September 1997) specialise as their names suggest. Australian Ethical introduced international shares to the portfolios in 2003, and the trusts now hold shares in a number of companies with world-leading sustainability focus.

In 1998 Australian Ethical launched a superannuation offering, and since then Australian Ethical Superannuation Pty Ltd has managed four superannuation strategies – each modelled on one of the four Australian Ethical trusts.

Investments in all trusts and superannuation strategies are selected in simultaneous pursuit of a just and sustainable society, the protection of the natural environment and the provision of a competitive financial return to investors. The attainment of these objectives is founded upon the Australian Ethical Charter – principles which guide the assembly and expansion of a premier portfolio of around 100 broadly based environmental and socially responsible investments.

Australian Ethical goes beyond the more common ethical investment practice of avoiding investment in repressive regimes, militarism, uranium mining, tobacco and alcohol production, gambling, rainforest/old growth logging, woodchipping, or

animal exploitation. Its strong pro-active principles (codified in the charter), provides investment support to environmentally and socially positive activities such as recycling, conservation, energy efficiency, preservation of endangered species, animal welfare, workplace relations and a range of related issues.

In October 2002, Australian Ethical helped establish the Centre for Australian Ethical Research (CAER), a not-for-profit research initiative offering corporate ethics research services to a range of organisations. CAER was originally set up to provide ethical research to Australian Ethical and it now continues to do so as a separate entity for a fee.

Australian Ethical is a leader in the extent of information it offers to the investing public. Its product disclosure statements and half-yearly newsletter, Aim High, include ethical profiles of company investments, permitting critical review by individual investors. Comment is actively sought.

In October 2005 Australian Ethical became one of the first fund managers to receive accreditation under the new Ethical Investment Association (EIA) 'SRI Recognition Symbol' program. This symbol involves verification of Australian Ethical's company selection processes through an independent auditing process managed by the association. Further information can be found at www.eia.org.au.

The Australian Ethical Charter[©]

Date of adoption: 1986. Applies worldwide.

The constituting documents of Australian Ethical Investment Ltd, Australian Ethical Superannuation Pty Ltd, all trusts and the superannuation fund contain this charter.

The Australian Ethical Trusts seek out investments which provide for and support:

- (a) the development of workers' participation in the ownership and control of their work organisations and places;
- (b) the production of high quality and properly presented products and services;
- (c) the development of locally based ventures;
- (d) the development of appropriate technological systems;
- (e) the amelioration of wasteful or polluting practices;
- (f) the development of sustainable land use and food production;
- (g) the preservation of endangered eco-systems;
- (h) activities which contribute to human happiness, dignity and education;
- (i) the dignity and well being of non human animals;
- (j) the efficient use of human waste;
- (k) the alleviation of poverty in all its forms;
- (l) the development and preservation of appropriate human buildings and landscapes.

The Australian Ethical Trusts avoid any investment which will unnecessarily:

- (i) pollute land, air or waters;
- (ii) destroy or waste non-recurring resources;
- (iii) extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non human animals or the environment;
- (iv) market, promote or advertise, products or services in a misleading or deceitful manner;
- (v) create markets by the promotion or advertising of unwanted products or services;
- (vi) acquire land or commodities primarily for the purpose of speculative gain;
- (vii) create, encourage or perpetuate militarism or engage in the manufacture of armaments;
- (viii) entice people into financial over-commitment;
- (ix) exploit people through the payment of low wages or the provision of poor working conditions;
- (x) discriminate by way of race, religion or sex in employment, marketing, or advertising practices;
- (xi) contribute to the inhibition of human rights generally.

Clause 2.2 of the Australian Ethical constitution obliges the directors of the company to report to shareholders on the pursuance of positive clause (a) above in the charter and matters generally related to the status of employees at the time of the annual general meeting.

Governance and Management of Australian Ethical

Corporate Governance Statement

This statement sets out the corporate governance practices of Australian Ethical Investment Limited. This is the third annual statement by Australian Ethical in response to the Corporate Governance Guidelines issued by the Corporate Governance Council of the Australian Stock Exchange.

These Corporate Governance Guidelines provide a framework for good governance set out in 10 core principles and 28 specific recommendations. Listed companies are required to report on the extent to which they meet these guidelines and explain where, and why, they do not comply with any of the recommendations.

The guidelines were the subject of a review by the Implementation Review Group in a report of 31 March 2004. As an outcome of that review, the stock exchange advised that effective disclosure of greatest value to the market needs to cover all aspects of corporate governance practices, not only practices that diverge from the stock exchange recommendations. Australian Ethical has provided information for all of the corporate governance recommendations.

Board of Directors

During the reporting period Australian Ethical pursued a program of change to its board. Despite pursuing this program of change during the period covered by this report the company did not comply with the following elements of the guidelines:

- the board of Australian Ethical does not comprise a majority of independent directors, as recommended by the guidelines (Australian Stock Exchange Recommendation 2.1);
- the board does not have a nomination committee (Australian Stock Exchange Recommendation 2.4); and
- the board audit committee does not comprise a majority of independent directors (Australian Stock Exchange Recommendation 4.3).

During this reporting period the company had no nomination committee. Given the size of the company the board does not consider it necessary to establish a nomination committee, functions normally carried out by this form of committee are performed by the board as a whole, or are delegated to the chairperson of the board.

For the reporting period 1 July 2004 through to 30 June 2005, the board had a total of six directors, of which two were considered independent. The two independent directors were George Pooley (non-executive independent chairperson) and Naomi Edwards (non-executive director). This represents 33 per cent of the board. Ray De Lucia, was a non-executive director but is not considered independent as he is an officer of the company, Ascalon Capital Managers Ltd, a significant shareholder (13 per cent) of Australian Ethical. The three executive directors of the company for this period were Caroline Le Couteur, Howard Pender, and James Thier.

This board composition is a result of the way in which the company has developed, the long-standing commitment of the executive directors and the contribution they make to the board. Since listing, the board has sought change in its own composition and structure and continues to do so. Future board composition will depend on whether the board considers it has the right balance of expertise at board level to continue to adhere to the Australian Ethical Charter and maintain company performance. Over time the board anticipates moving to a majority of independent directors.

The board carries out its responsibilities according to its constitution, regulatory requirements, and an overall mandate which includes the following:

- the board must comprise at least three and not more than ten directors;
- the board is bound by the Australian Ethical Charter that is set out in the company constitution. The charter sets out 23 ethical principles to be applied to the operations and activities of the company;
- each director is committed to the Australian Ethical code of conduct that governs the conduct of employees and directors. This code is consistent with the recommendations that form part of the Australian Stock Exchange Principles 3 and 10;
- all available information on items to be discussed at a board meeting shall be provided to each director prior to that meeting;
- the board has adopted a policy for the management of conflicts of interest;
- in respect of the Ascalon investment, the board believes Ascalon's interests are independent of management and aligned with shareholders;
- with the prior approval of the chairperson, each director has the right to seek independent legal and other professional advice at the company's expense on any aspect of the company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

Australian Ethical has formalised the functions of the board and those that have been delegated to management. Responsibility for functions not delegated to management remain with the board.

The primary responsibilities of the board include:

- appointment and appraisal of the performance of the chief executive officer;
- the approval of the annual and half-year financial statements;
- the establishment of company goals and strategic plans to realise them;
- the review and adoption of annual budgets for the financial performance of the company and monitoring the results on a regular basis; and
- risk management, including ensuring that the company has implemented adequate systems of internal controls, together with appropriate monitoring of compliance activities.

The board has established the following committees to assist it in its work:

Audit Committee:

Throughout this reporting period the board audit committee consisted of two non-executive directors, George Pooley and Ray De Lucia, and the company secretary. The audit committee provides a forum for the effective communication between the board and the external auditors. The role of the committee is to advise the board on the maintenance of an appropriate framework of financial internal control and appropriate discharge of 'trading company' fiduciary obligations for the company and its subsidiary, Australian Ethical Superannuation Pty Ltd.

During the 2004–05 financial year covered by this report the audit committee did not consist of only non-executive directors, the company secretary is a member but not a director. Further the audit committee did not consist of a majority of independent directors. George Pooley was the independent director, while Ray De Lucia was the chairperson of the committee for this reporting period but was not considered independent.

Finance Committee:

The Australian Ethical finance committee monitors and reports to the board on the financial situation of Australian Ethical. This committee oversees the budget development process and budget preparation, reviews financial trends, claims and contingencies, and examines proposals for expenditure programs.

Investment Committee:

The investment committee deliberates on the investments for Australian Ethical funds in the four trusts for which Australian Ethical is the responsible entity and for which Australian Ethical has a mandate. Investment committee considerations also include proper valuation of the property of the trusts and investment mandates.

Compliance Committee:

The board compliance committee was established as required by the Corporations Act 2001 when, as responsible entity of registered schemes, fewer than half of the

directors of the board of Australian Ethical are considered external (as defined by s601JA of the Corporations Act) directors. Members of this committee are considered independent of Australian Ethical. The compliance committee is responsible for assessing and reporting on compliance within the terms of reference for the compliance plan for the trusts.

Remuneration Committee

Toward the end of this reporting period the board appointed a remuneration committee. The members of the remuneration committee are George Pooley (independent non-executive director) and Caroline Le Couteur (non-independent executive director). The charter for the remuneration committee has been finalised and will be made available on the company website in the near future.

Risk Management and Identification

The board is responsible for the company's system of internal controls. The board monitors the operational and financial aspects of the company's activities and, through the audit committee, the board considers the recommendations and advice of external auditors and other external advisers on the operational and financial risks that face the company.

The board ensures that appropriate action is taken to ensure that the company has an appropriate internal control environment in place to manage identified key risks. It has appointed a director as risk management officer and established a formal 'Statement on Risk Management', together with supporting documentation. The Australian Ethical Guide for Risk Management and section risk registers document the major risks facing the company and the way in which these risks are managed. The risk registers are updated regularly and the criteria and working standards set out in the guide are periodically reviewed. There is a description of the company's risk management policy and internal compliance and control systems on the company website.

The chief executive officer, risk management officer, and compliance officer are required to certify to the board that internal control and risk management systems are operating efficiently and effectively throughout the group. These company officers are also required to certify that the integrity of the financial statements are founded on a solid system of risk management and internal compliance and control.

Performance and Evaluation Process

Directors

Directors undertake an annual self-assessment of performance (both collective and individual) and seek specific feedback from senior management on the same.

In this process a questionnaire concerning board and individual performance is completed by directors in respect of themselves and each other director. The results are collected by the board chairperson. The whole board then considers and discusses the results of the questionnaire at a board meeting. The chair also talks to each director individually about their performance and generally on the evaluation and comments received from peer directors. Questionnaire results are then examined for both their qualitative and quantitative aspects.

Executives

Executive performance is evaluated according to the Australian Ethical annual performance review guidelines. The chief executive officer review is undertaken by the board chairperson. Reviews of the other executives are undertaken by the chief executive officer. The process includes:

- receipt of comments from staff (directors if applicable);
- review of comments received then incorporated into annual review as appropriate (emphasis given to underlying themes or perceptions);
- draft completion of the annual review and provision to the executive for discussion;
- discussion of the annual performance review covering: key responsibilities, overall performance, key behaviours, achievements against objectives of previous year, objectives for coming year, aspirations and areas for improvement;
- review of competencies and qualifications to ensure they remain applicable to the position (training program developed if required);
- investigation of specific training suitable and available.

Remuneration

The remuneration policy of Australian Ethical must accord with the principles set out in the Australian Ethical Charter. The charter encourages workers' participation and control and specifically prohibits 'the payment of low wages or the provision of poor working conditions'.

Australian Ethical has a mix of full-time and part-time staff. It provides flexible employment options within business needs. It currently offers no salary packaging arrangements other than optional salary sacrifice into superannuation. Australian Ethical seeks to treat all staff in an equitable fashion. All permanent staff (including the chief executive officer and executive directors) are paid a cash salary and participate in bonus and employee share ownership arrangements. These arrangements are reviewed annually and are not subject to specific performance hurdles.

Permanent employees are eligible to participate in the staff bonus, which is determined under the constitution. Each year the bonus is set with reference to the profit of the company. Each full-time staff member receives the same amount and part-time employees receive a pro-rata amount. The company constitution provides for the bonus to be (at the election of staff) satisfied by the issue of shares.

Under an employee share ownership plan, a pool of options, which if exercised would amount to 5 per cent of the existing ordinary share capital, is issued to staff. All permanent non-probationary employees are eligible to participate. The price at which the options can be exercised is set at 10 per cent above the market price of the shares. The number of options received by an individual staff member depends on his or her salary level. Options are not exercisable for a period of three years from the date of grant of option and generally forfeited upon an employee leaving Australian Ethical. The company remuneration policy is set out in detail on the Australian Ethical website.

The board did not have a remuneration committee during all of the period covered by this report. The board was previously of the view that the company was of a size that did not warrant the establishment of a remuneration committee. However due to the growth of the company, towards the end of the period covered by this report the board appointed a remuneration committee as detailed in the corporate governance statement.

Details of the remuneration paid to directors and executives during the period covered by this report is set out in Tables 3 and 4 of this report. This information is reported so as to distinguish between the structure of non-executive director and executive director remuneration.

Equity-based payments for executive directors have previously been approved by shareholders. An employee share ownership plan was established by the board prior to listing on the stock exchange and hence thresholds have not been approved by shareholders. Terms of the company employee share ownership plan were set out clearly in the prospectus issued prior to floating the company on the stock exchange.

Recognition of Stakeholder Interests

Australian Ethical was established to promote ethical and socially responsible investment. By virtue of the nature of Australian Ethical, the board is committed to the highest standards of conduct and ethical practices in guiding the business activities of Australian Ethical and its subsidiary. The key elements that underpin these aims include transparency in the way in which business is conducted and clear communication to members and stakeholders. The Australian Ethical code of conduct expects this of each employee and director of the company.

There is greater recognition of the challenges involved in maintaining close communication with a larger number of shareholders participating in the company since listing on the stock exchange. The board undertakes a review of corporate governance in accordance with the principles of good corporate governance and best practice recommendations made by the stock exchange in March 2003. This review is maintained as part of the regular board process.

Australian Ethical has set down written procedures for continuous disclosure and reviews its compliance plan for the investment trusts each year. Australian Ethical maintains a newsletter, 'Aim High', for unitholders and shareholders and also produces a chief executive officer information sheet for shareholders. The company has revised its general meeting arrangements to promote participation and the dissemination of information. Australian Ethical has also ensured access to the external auditor at these meetings.

Australian Ethical produces this sustainability report for shareholders and other stakeholders on the triple bottom line performance of company operations. The report is made available on the Australian Ethical website and prepared with reference to the Global Reporting Initiative 2002 Sustainability Reporting Guidelines: www.globalreporting.org.

The company has developed a corporate governance section for its website: www.austethical.com.au. The board has directed that detailed and comprehensive information on the company's corporate governance arrangements and copies of relevant policies and charters be placed on the website. Australian Ethical welcomes comments and suggestions from stakeholders on any element of its corporate governance program.

Policies and Management Systems

Economic, Environmental and Social Policies

In 2002 Australian Ethical established a sustainability committee for the Australian Ethical group. The sustainability committee was formed to address issues of sustainability within Australian Ethical. The committee consists of eight individuals from various areas within the organisation, who meet on a monthly basis. One of the committee members is also an executive director of Australian Ethical.

Committee members play an important part in the process of overseeing and implementing economic, environmental and social company policy. Members of the committee organise sustainability initiatives, including trips to the Red Cross to donate blood, participation in tree planting events around Canberra, alternative transport days and sustainability lectures. Each committee member may have input

through to board level should the need arise, either through representation via the company staff advocate, Gary Leckie, or the committee member and director, Caroline Le Couteur. Further the chairperson of the committee, Robert Sharf, or any committee member can approach the chief executive officer of Australian Ethical with sustainability issues for consideration by the board.

There are two boards within the Australian Ethical group, the Australian Ethical Investment board and the Australian Ethical Superannuation board. Both boards and their committees have responsibility for the oversight, implementation and audit of company economic, environmental, and social policies. The responsibility for implementation of these policies rests with the chief executive officer of the group, Anne O'Donnell.

In addition the company secretary has a key responsibility in the organisation through input into company policies covering economic, environmental and social policies.

Australian Ethical elects a staff advocate every two years to represent staff at board level. One of the key responsibilities of this position is to represent employee interests across the economic, environmental and social policies formulated or implemented by the company over time. The incumbent staff advocate for the period covered by this report was Gary Leckie.

Australian Ethical Whistleblowing Policy

Date of adoption: 26 November 2004

The Australian Ethical board endorsed a whistleblowing policy in late November 2004. The implementation of this policy is in recognition of the important relationship based on trust between Australian Ethical and its employees. This policy enables staff to approach a manager or supervisor about matters which may cause them concern or about which they may feel uncertain.

The staff advocate is available to consult and represent staff in this regard. The role of staff advocate incorporates a duty to act as a *protection officer*. The protection officer is accountable to the company on matters of disclosure (rather than to any supervisor or manager). Any employee may approach the staff advocate to discuss matters in confidence in their role as protection officer. The protection officer role is to discuss the extent to which an employee's identity will be divulged and the nature and source of the issue of concern.

Employees are also able to approach a staff counselling service if they continue to remain uncertain, or have other personal issues they may feel the need to discuss.

The specific standards of the company policy statement on whistleblowing include:

- Not disclosing confidential information – this includes not giving confidential information to other units within Australian Ethical or using the information provided for a different purpose without first obtaining written consent or authorisation;
- Being aware of conflicts – Australian Ethical has a statutory duty to uphold the interest of unitholders where there are conflicts of interest. If there is a conflict between personal interests and the interests of the Australian Ethical group, action must be taken to remove or manage the conflict to avoid inequity to unitholders or detriment to the group;
- Expressing concern, asking questions and communicating together – employees are encouraged to discuss any issues that may arise with supervisors or managers. Should an employee wish to remain anonymous, they may phone or contact the compliance officer (company secretary) directly or through an intermediary. Employees are encouraged to speak in their name wherever possible.

Australian Ethical Code of Conduct

Date of adoption: 24 August 2001

Australian Ethical's code of conduct is designed to provide guidance to employees and directors on standards expected by the company in everyday business operations. This code is endorsed by the Australian Ethical board of directors and applies to all employees and directors. Australian Ethical always seeks to adhere to the code in any dealings with stakeholders. The company also strives to achieve conduct that is over and above current best practice. A summary of the code of conduct outlining specific standards of conduct follows. A full version of this Australian Ethical code of conduct can be found on Australian Ethical's website: www.austethical.com.au.

Specific standards of conduct:

- we must be aware of conflicts;
- we must not participate in insider trading;
- we must not make unauthorised gains or payments;
- we must only use company assets as authorised;
- we must not disclose confidential information;
- we must ensure everyone has an equal opportunity;
- we must compete fairly;
- we must take into account any environmental, health and safety impacts before making any business decision;
- we must not make unauthorised public statements;
- we must not make unauthorised political donations on behalf of Australian Ethical; and
- we must be familiar with policies and procedures that relate to our work.

Policy addressing Bribery and Corruption

The Australian Ethical code of conduct explicitly prohibits bribery:

As a general rule, don't accept (or offer to give) gifts, services, discounts, gratuities or other gains from (or to) people who conduct business with Australian Ethical. There are some exceptions – small gifts or invitations to local social or sporting functions are generally acceptable. The offering of bribes to anyone is prohibited outright. Breaking this principle could compromise all concerned and is illegal.

Corruption is often defined using different parameters and can encompass or exclude differing behaviours. The Australian Ethical code of conduct explicitly addresses areas of corruption pertaining to the financial sector. These include:

- conflicts of interest;
- insider trading;
- disclosure of confidential information;
- fair competition.

The specific instructions regarding insider trading state:

If you have non-publicly known, price-sensitive information such as: information acquired through working on investments, information about a proposal, information about any other entity in which Australian Ethical may have an interest; or information that has come to your knowledge through your employment with Australian Ethical, then you must not deal in that entity's investments or pass that information on to another person or encourage another person (for example, a family member) to make any investments in the entity. In addition, as a general rule, you should not buy or sell Australian Ethical shares between the close of the financial year, or half year, and the announcement of our results.

In addition to the code of conduct, Australian Ethical also addresses the issues of bribery and corruption in the compliance manual. The compliance manual aims to ensure Australian Ethical's compliance with relevant legislation. These procedures aim to:

- identify roles and responsibilities of management and staff with regard to compliance;
- prevent compliance failures;
- deal with compliance failures which may occur;
- monitor, assess and report;
- record, analyse and store information; and
- educate staff on compliance.

Political Donations

Funds given in support of a political party may be identified as corrupting the political process. Donations may act to influence the decisions made by the party in favour of the company. Conflict may also arise where stakeholders disagree with the policies of a party receiving donations. The Australian Ethical Code of Conduct does not prohibit political donations. It does, however, prohibit donations made on behalf of the company that have not been approved by the board.

Although political donations are not forbidden by the company's code of conduct, no political donations were made during the 2004–05 financial year.

Product Information and Labelling

Under the *Corporations Act 2001* (amended by the Financial Services Reform Act), a retail client should receive a product disclosure statement before acquiring a financial product. A product disclosure statement is a document that sets out the key features of the financial product being offered and should include any risks, benefits and cost involved with the financial offering. Hence it is Australian Ethical policy to complete and distribute a product disclosure statement as required by law and in accordance with company compliance procedures.

The company procedure includes review of the product disclosure statement by the appropriate section within Australian Ethical, this is then completed through verification and sign-off by the section head. The product disclosure statement is reviewed by Australian Ethical's legal team and one executive director, who has been deemed responsible for overseeing the review of the document.

In addition statement (b) of the Australian Ethical Charter states that the company should seek out and support the production of high quality and properly presented products and services. Adherence to this statement is required internally by Australian Ethical as well, as it is enshrined in the company constitution. Hence the same standard applies to the company's internal operations as the charter would require the company support in an investee company or potential investment.

Company marketing activities are carried out within the broader context of the Australian Ethical business plan and the marketing strategic plan. These company activities are carried out in accordance with marketing section procedures and the Australian Ethical constitution. Additional policy sources that have particular relevance to Australian Ethical's marketing activities include the *Corporations Act 2001*; Goods and Services Tax; National Privacy Principles; copyright; *Spam Act 2003*; *Trade Practices Act 1974*, Australian Securities & Investments Commission; Investment & Financial Services Association Limited; Association of Superannuation Funds of Australia Limited; and the Advertising Standards Council.

Privacy Policy

Australian Ethical outlines its commitment to ethical conduct and practice regarding privacy in the company privacy policy. The privacy policy outlines how Australian Ethical complies with the *Privacy Act 1988 (Cth)* and adheres to the National Privacy Principles. The privacy policy outlines the safeguards that Australian Ethical exercises regarding the collection, storage, use and disclosure of personal information. Individuals are able to gain access to the information collected, in accordance with privacy legislation. The full policy can be accessed on the Australian Ethical website at: <http://www.austethical.com.au/privacy>

There were two breaches of consumer privacy during the 2004–05 financial year. Both breaches were satisfactorily rectified.

Compliance

Twelve non-compliance incidents were recorded during the 2004–05 financial year relating to the regulatory structure governing Australian Ethical: the Compliance Plan; the *Corporations Act 2001*; the *Superannuation Industry Supervision Act 1993*; and other associated regulation. These minor non-compliance issues were managed and reported to the compliance committee as company policy requires.

Asset Management Policy

Australian Ethical offers investors something extra to conventional investment by applying its unique combination of financial and ethical objectives to the selection of investments.

These objectives are:

- to contain the risk of investing;
- to obtain a financial return commensurate with any risk taken;
- to avoid investment in activities which are socially or environmentally detrimental;
- and to prioritise investment in profitable activities which bring social or environmental benefits.

Australian Ethical selects investments for the trusts that contribute to a just and sustainable human society and the protection of the natural environment, as well as providing a return commensurate with any risk taken.

Each investment must meet the positive requirements of the Australian Ethical Charter which is an integral part of the selection process. It is this charter that makes the Australian Ethical investment methodology unique in the ethical investment market.

The application of the Australian Ethical Charter defines the ‘universe’ of investments for the four company trusts. The company invests across a broad spectrum of sectors ranging from new environmental and energy technologies to education and health.

Australian Ethical is a specialist in its field of ethical investment. Researchers from the Centre for Australian Ethical Research Pty Ltd (CAER), in association with Australian Ethical analysts, investigate potential investee enterprises to assess the ethical merits of the investments. This work is supervised by the investment committee and combines financial and ethical analysis to determine selection priorities. By utilising the services of CAER and the work of Australian Ethical analysts, the investment committee is able to monitor and keep abreast of major new scientific initiatives, outcomes and developments. This research capacity allows an active approach to seeking out enterprises dedicated to the sustainable improvement of communities, company operations and business on environmental, social and ethical grounds.

The investment philosophy is based upon the principles of the Australian Ethical Charter. The charter acts as a guide in setting out the types of activities to be supported, and the types of activities to be avoided. Thus, for example, Australian Ethical is supportive of companies whose business and/or activities involve the efficient use of human waste, but avoids investment in companies considered to unnecessarily promote products or services in a misleading manner.

Whilst there are certain types of stocks which Australian Ethical will not invest in at all (for example, stocks with interests in tobacco, uranium or gambling), we are also very active in our positive approach to stock selection. Australian Ethical differs from most ethical fund managers because of this, as we do not merely apply negative screening to the range of possible investments, rather we support positive sustainable (potential) investments.

When making decisions on the ethical merits of a company, Australian Ethical will first consider the core business activity of the company in question. Investment becomes a possibility if the core activity of the company falls into any of the areas the charter highlights that Australian Ethical might be seeking to support, and does not directly contravene any principles that the charter seeks to avoid.

Having made this determination, it is then necessary to determine whether the way in which the company behaves in carrying out its core activities might contravene an aspect of the charter, or might be identified as being supported by the charter. This in-depth ethical research is carried out by CAER. Information used in CAER’s research process is gathered from a range of publicly available sources, including media, government information and material from non-government organisations.

Australian Ethical's monitoring of investments is also very stringent. If an investee company diversifies into an excluded industry or engages in unacceptable practices, a review will be performed which may involve company engagement both prior to and after the event. If, on the weight of evidence, the stock is no longer appropriate, it will be divested as soon as practicable.

Debate is an integral part of this decision making process – for this reason Australian Ethical is keen to hear from stakeholders. While we reserve the right to exercise judgment regarding investment selection, comments about the ethical profiles of trust investments are reported regularly to the Australian Ethical investment committee by CAER, Australian Ethical's research providers.

Australian Ethical aims to be as transparent as possible about the results of the investment process. The company product disclosure statement includes details of companies invested in, and a regularly updated listing of investments also appears on the company website.

Proxy Voting Policy

It is Australian Ethical policy to vote (or make a considered decision to abstain) on investee company resolutions where it has voting authority and responsibility to do so (consistent with IFSA Standard No 13.00 – Proxy Voting). At present Australian Ethical is voting all of its proxies for Australian investee companies. Over time, it expects to expand on this and vote on all proxies for international investee companies as well.

Decisions on how to vote proxies will be made on a company-by-company and resolution-by-resolution basis with regard to the following factors:

- The preservation and increase of the value of the investment in the best interests of members in the trust;
- Improving and upholding the governance of investee companies;
- The performance of the investee company;
- The application of the Australian Ethical Charter to the resolution under consideration.

Stakeholder Engagement

Australian Ethical Stakeholders

Australian Ethical identifies a number of stakeholders including staff, inquirers, the local community, and Australians in general as well as shareholders, trust unitholders, superannuation members, financial advisors that receive information on products, investee entities and suppliers.

Stakeholder Engagement

Australian Ethical consults with its stakeholders through employee surveys, staff advocate feedback, staff forums, and investor surveys. Stakeholder input is also sought through the feedback form on the company website, the annual general meeting – held out of hours to encourage attendance – and a question section included in the annual general meeting notice sent out to shareholders. The company also welcomes letters to the company secretary, the investment committee, or the board to facilitate stakeholder communication.

Customer Complaints

Australian Ethical has procedures in place to measure customer complaints. During the 2004–05 financial year the company recorded 52 complaints covering a range of issues, from mailing issues to tax. All complaints were addressed according to their nature.

Association Memberships

Australian Ethical, or its subsidiary Australian Ethical Superannuation, are members of the following industry and business associations:

- *Association for Sustainable & Responsible Investment in Asia (ASrIA)*
‘ASrIA is a not for profit, membership association dedicated to promoting corporate responsibility and sustainable investment practice in the Asia Pacific region’ (ASrIA 2005).
- *Association of Superannuation Funds of Australia Limited (ASFA)*
‘ASFA is a non-profit, non-political national organisation whose mission is to protect, promote and advance the interests of Australia’s superannuation funds, their trustees and their members’ (ASFA 2005).
- *Employers Making A Difference (EMAD)*
‘Employers Making a Difference is a not for profit organisation funded by its members to operate as a strategic business partner with companies, organisations and governments employing people with a disability’ (EMAD 2005).
- *Ethical Investment Association (EIA)*
‘The EIA’s primary objective is to promote the concept, practice and growth of ethically, socially and environmentally responsible investing in Australia’ (EIA 2005).

- *Global Reporting Initiative (GRI)*
‘The GRI is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines (GRI 2005b).
- *Investment & Financial Services Association Limited (IFSA)*
‘IFSA is a national not-for-profit organisation which represents the retail and wholesale funds management and life insurance industry.’ (IFSA 2005).
- *IPS Worldwide*
‘IPS Worldwide is a human resource, risk management and health services company providing high quality human capital solutions to leading organisations. IPS Worldwide is committed to pushing the envelope by leading development and innovation in tailored workplace programs that assist organisations better manage their human resources, improve the productivity of their employees and their experience of the workplace’ (IPS Worldwide 2005).

Performance Indicators

Scope and Profile

Scope of Reporting

This section describes the economic, environmental and social performance of Australian Ethical Investment Ltd and Australian Ethical Superannuation Pty Ltd for the year to 30 June 2005. It does not extend to the activities of the holdings/investments of the trusts and super funds managed by the Australian Ethical group, nor does it extend to the activities of CAER.

Reporting of Australian Ethical's environmental performance is limited to its Canberra offices and does not include the activities of the staff working from home.

Independent Verification and Quality Assurance

In order to provide independent assurance about the accuracy, completeness and reliability of data presented in the 2005 Sustainability Report, Australian Ethical had the report formally reviewed by an external firm, Thomas Davis and Company, Chartered Accountants. Thomas Davis and Company visited Australian Ethical's offices on the 10th and 11th of November 2005 and spent a total of 25 auditor hours reviewing the financial/numeric data contained in the report (e.g. paper use, energy use, employee, office space and waste data). Their report to the Directors of Australian Ethical is presented on the following page.

THOMAS DAVIS & CO.

(ESTABLISHED 1894)

CHARTERED ACCOUNTANTS

Liability limited by a scheme approved
under Professional Standards Legislation

18 November, 2005

The Directors
Australian Ethical Investment Limited
Suite 66, Canberra Business Centre
Bradfield Street
DOWNER ACT 2602

Dear Sirs,

Independent Review Report to the Directors

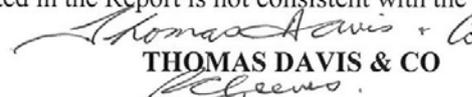
The 2005 Sustainability Report ("the Report") of Australian Ethical Investment Limited summarises the economic, environmental and social performance of Australian Ethical Investment Limited for the period 1 July, 2004 to 30 June, 2005. Australian Ethical Investment Limited management is responsible for the content of the Report. We agreed with Australian Ethical Investment Limited management to independently review the financial data (including paper use, energy use, employee, office space and waste data) in the Report and to report on the scope of our review procedures and our findings.

We have conducted our review in accordance with Australian Assurance Engagements Standard AUS 108 "Framework for Assurance Engagements" and relevant Australian Auditing Standards. The level of testing and verification undertaken in this review provide less assurance than an audit and does not allow us to provide an audit opinion.

Our review work included:

- Interviews with management responsible for financial data reporting.
- Review of systems and procedures used during the collation and reporting of the financial data.
- Review of the financial data to test the accuracy and reliability of the financial data with source documentation, on a sample basis; and
- Review of the Report in respect of financial data to assess consistency with the findings of the work completed.

Based on our review, we report that nothing has come to our attention that causes us to believe that the financial data presented in the Report is not consistent with the source documentation.


THOMAS DAVIS & CO
R.C. GEEVES PARTNER

Chartered Accountants

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www.thomasdavis.com.au



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EMAIL: mail@thomasdavis.com.au

A.N.Z. BANK BUILDING
68 PITT STREET
SYDNEY 2000

Economic Performance Indicators

The 2004–05 financial year was an excellent year for Australian Ethical, with strong growth in funds under management and consequently an increase in revenue. This section aims to report on Australian Ethical’s economic performance for the year ending 30 June 2005.

Direct Economic Impacts

Funds under management (FUM) grew from \$267 million in June 2004 to \$311 million in June 2005 (after distribution) (Figure 1). The distribution amount this year was \$48 million, compared to a distribution the previous year of \$8 million. The total including distribution was \$359 million for the end of June 2005. Funds under management increased in the balanced, income and large companies unit trusts, while there was a net marginal outflow in the equities unit trust (Figure 2). Funds under management also increased in each of the superannuation accumulation and rollover strategies and the superannuation pension strategies (Figures 3 and 4).

Figure 1: **Growth of Funds Under Management (Years Ending 30 June) – figures are net of crossholdings**

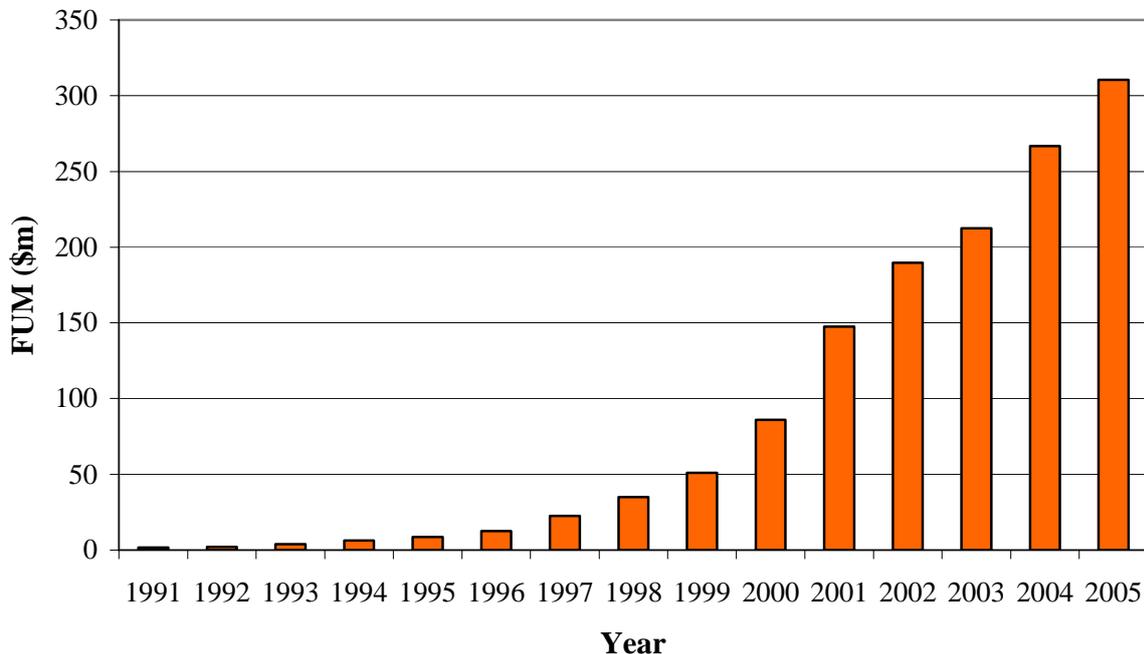


Figure 2: Unit Trusts – Funds Under Management as at 30 June 2003, 2004 and 2005 – figures include crossholdings

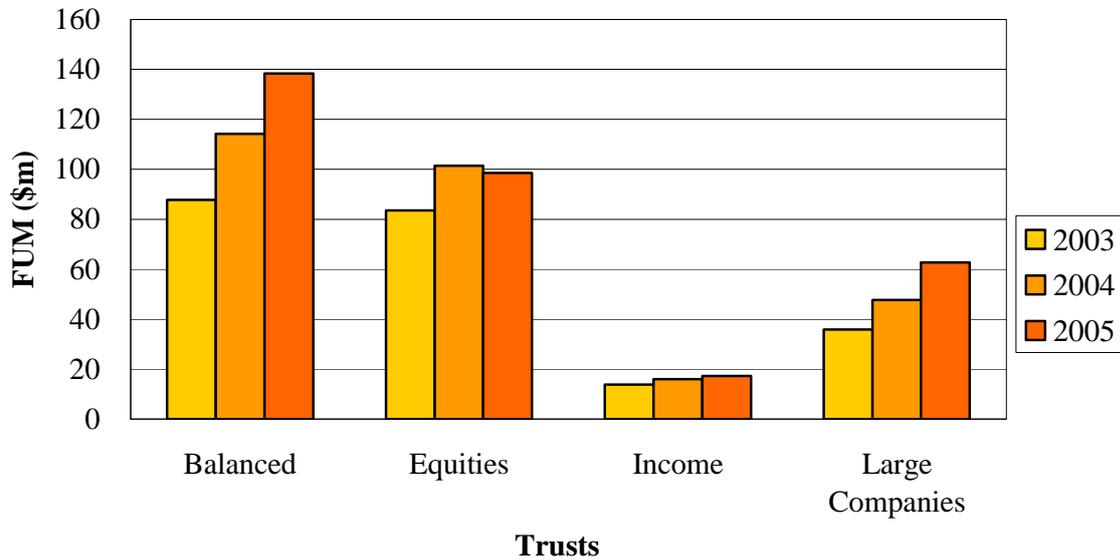
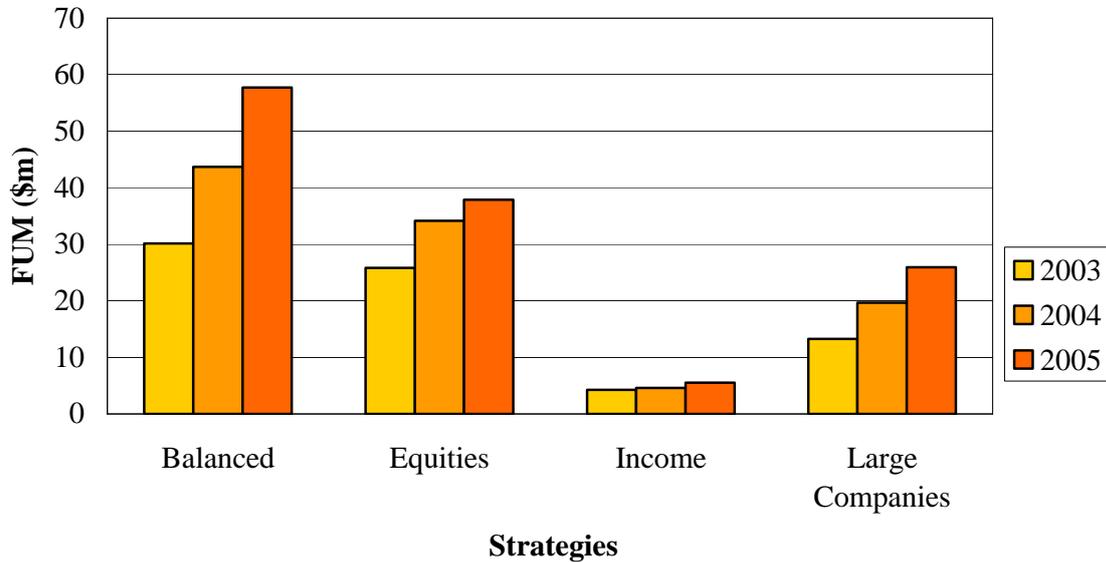
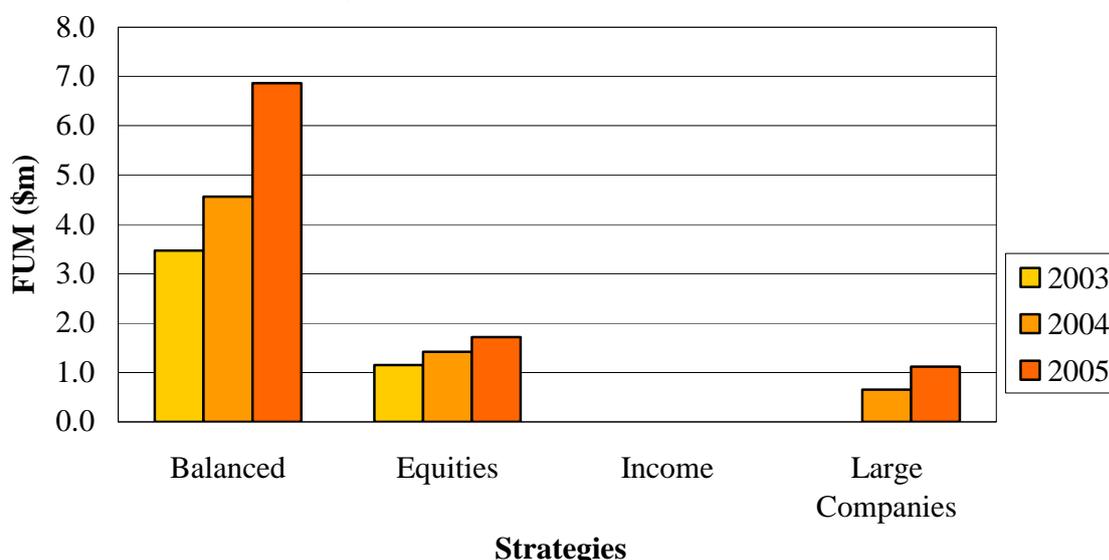


Figure 3: Superannuation Accumulation & Rollover Strategies – Funds Under Management as at 30 June 2003, 2004 and 2005¹



¹ Figure does not include cash allocated to the strategies that is yet to be used to purchase units.

Figure 4: Superannuation Pension Strategies – Funds Under Management as at 30 June 2003, 2004 and 2005^{1,2}



¹ Figure does not include cash allocated to the strategies that is yet to be used to purchase units.

² Figure does not include years where strategies held less than \$0.5 million.

Revenue for the year to 30 June 2005 was \$7,424,520, up 26 per cent on the previous reporting period (Table 1). Net profit after tax for the year was \$810,900, 76 per cent higher than for the year ended 30 June 2004. Dividends paid to shareholders rose by 127 per cent to \$631,589, while total tax paid (income tax plus payroll tax; excluding net GST) for the year was \$473,767 (Table 1). The company's retained earnings increased by \$179,311 during the current reporting period (Table 2). Net assets increased by \$505,170 to \$5,046,886 (Table 2).

Table 1: Economic performance indicators for the financial years 2002–03, 2003–04 and 2004–05

Economic Performance Indicator	Financial Year		
	2002–03	2003–04	2004–05
Revenue from ordinary activities	\$4,660,690	\$5,892,861	\$7,424,520
Cost of all goods and services purchased ¹	\$1,292,622	\$1,599,235	\$1,913,449
Employee benefits ²	\$2,494,805	\$2,809,240	\$3,279,692
Net profit after tax	\$190,921	\$459,761	\$810,900
Dividends paid during the year	\$152,740	\$278,069	\$631,589
Income tax	\$84,316	\$199,523	\$353,865
Payroll tax	\$87,660	\$87,931	\$119,902
Total sum of tax paid	\$171,976	\$287,454	\$473,767
Net goods and services tax	\$392,260	\$481,494	\$408,214

¹ Does not include staff costs.

² 100% of payroll and benefits are paid in Australia.

Table 2: Economic performance indicators as at 30 June 2003, 2004 and 2005

Economic Performance Indicator	Balance Date		
	30.06.2003	30.06.2004	30.06.2005
Increase in retained earnings	\$25,874	\$181,692	\$179,311
Total assets	\$5,156,860	\$5,591,003	\$6,533,613
Net assets	\$4,339,153	\$4,541,716	\$5,046,886

Australian Ethical's Community Grants Scheme

As part of Australian Ethical's constitution, 10 per cent of the company's profit is donated to non-profit charities, benevolent and conservation organisations through the community grants scheme. In 2004, the company donated a total of \$58,262 to 30 organisations (see Appendix C). Grants ranged from \$950 to \$5000. A number of these groups are not generally recognised by the public at large, making fundraising difficult. Our grants help to ensure their survival and ability to continue the excellent work they do. Australian Ethical would like to see other listed companies showing similar regard to the community and the environment from which they derive their profits. If all companies donated even a fraction of their profits, the positive impact would be enormous.

In 2005, Australian Ethical expects to donate \$98,227 to community organisations – the largest grant to date. This means that since first making a profit in 1997, Australian Ethical will have donated over \$250,000 back into the community. Recipients of the 2005 grants will be announced in October 2005. Further information on the community grants scheme, including application guidelines and selection criteria, can be found on the company website.

Remuneration Practices

Australian Ethical has a policy for determining the nature and amount of emoluments board members and senior executives are paid. The company levels of remuneration are based on the Australian Ethical remuneration policy which applies to all staff. The details of this policy are set out in the corporate governance statement contained in this report. The remuneration of Australian Ethical's parent entity directors and specified executives are detailed in Tables 3 and 4.

Directors and Executives' Remuneration

The names and positions of parent entity directors and specified executives in office at any time during the financial year were:

Parent Entity Directors

George Pooley	Chairperson - Non-Executive	
Ray De Lucia	Director - Non-Executive	Ceased 10.10.2005
Trevor Lee	Director - Non-Executive	Ceased 24.11.2004
Caroline Le Couteur	Director - Executive	
James Thier	Director - Executive	
Howard Pender	Director - Executive	
Naomi Edwards	Director - Non-Executive	Commenced 01.02.2005

Specified Executives

Anne O'Donnell	Chief Executive Officer	
David Ferris	Investment Manager	
Mark Bateman	Chief Financial Officer	
Philip George	Company Secretary/Legal Counsel	Commenced 26.10.2004
Christopher Lee	Company Secretary	Resigned 25.10.2004
Ruth Medd	Director of wholly owned entity	

Table 3: Parent Entity Directors' Remuneration

2005	← Primary →				Post		Total	
	Salary	Director's Fees	Committee Fees	Consulting Fees*	Bonus	Super		Options
	\$	\$	\$	\$	\$	\$	\$	
George Pooley	-	42,964	3,000	-	-	-	-	45,964
Ray De Lucia	-	12,974	-	-	-	-	-	12,974
Trevor Lee	-	5,000	-	-	-	450	-	5,450
Caroline Le Couteur	105,252	12,974	-	-	3,500	10,639	3,141	135,506
James Their	85,153	24,474	-	-	2,800	9,802	2,573	124,802
Howard Pender	43,990	24,474	-	41,082	1,225	6,132	1,076	117,979
Naomi Edwards	-	16,689	-	5,000	-	1,502	-	23,191
Total	234,395	139,549	3,000	46,082	7,525	28,525	6,790	465,866

* Howard Pender (through Wandoo Economics) has a contract with the parent entity for the provision of management services as required. Naomi Edwards had a one off contract with the wholly owned entity to provide an outsourcing review. The terms and conditions of these contracts are no more favourable than those that it is reasonable to expect the entity would have adopted if dealing at arm's length with an unrelated individual.

2004								
	Salary	Director's Fees	Committee Fees	Consulting Fees*	Bonus	Super	Options	Total
	\$	\$	\$	\$	\$	\$	\$	\$
George Pooley	-	38,150	2,000	-	-	-	-	40,150
Ray De Lucia	-	10,762	-	-	-	-	-	10,762
Trevor Lee	50	10,762	-	-	193	968	391	12,364
Caroline Le Couteur	58,102	10,762	-	56,980	1,750	6,163	4,207	137,964
James Their	94,569	20,762	-	-	1,400	10,325	3,298	130,354
Howard Pender	37,834	20,762	-	3,188	613	5,240	1,363	69,000
Alistair Clark	63,111	6,190	-	-	1,400	5,206	3,115	79,022
Total	253,666	118,150	2,000	60,168	5,356	27,902	12,374	479,616

Table 4: Specified Executives' Remuneration

2005	← Primary →			Post		Total	
	Salary	Director's Fees	Committee Fees	Bonus	Super		Options
	\$	\$	\$	\$	\$	\$	\$
Anne O'Donnell	142,361	-	-	3,500	12,695	3,581	162,137
David Ferris	123,415	-	-	3,500	11,025	3,189	141,129
Mark Bateman	123,568	-	-	3,500	10,766	2,498	140,332
Philip George	72,909	-	-	-	6,545	-	79,454
Christopher Lee	29,569	-	-	3,291	2,449	-	35,309
Ruth Medd	-	11,500	6,000	-	1,035	-	18,535
Total	491,822	11,500	6,000	13,791	44,515	9,268	576,896
2004							
Anne O'Donnell	125,172	-	-	1,750	11,219	4,455	142,596
David Ferris	112,988	-	-	1,750	9,989	3,972	128,699
Mark Bateman	87,157	-	-	1,750	7,823	3,120	99,850
Ruth Medd	-	10,000	5,000	-	900	-	15,900
John Ford	-	9,083	-	-	-	-	9,083
Total	325,317	19,083	5,000	5,250	29,931	11,547	396,128

Environmental Performance Indicators

Reducing Resource Use

"[Presently]...if the entire world were consuming at the rate we do in Western economies, it would take five planets to support us." (Engen, 2005)

Dominant western developed societies have pursued certain very narrow economic policies for many years, idealising the idea of a free market. At the same time, belief in individual economic freedom as the recipe for human happiness and prosperity has led to overconsumption of the earth's resources on a grand scale. As a result it is the consumers in the developed world to date that have largely benefited from the products of these practices, but the costs of this are now greater than they have ever been.

In order to reduce resource overconsumption there is a need to rethink choices and change behaviours. To this end, the ability to access green information and technology, and make informed choices (for instance, seeing the lifecycle behind the product) is vital. As citizens of a dominant western society, all Australians have benefited from resource over-consumption. Companies, shareholders, non-governmental organisations, individuals, experts and governments in these societies have benefited greatly, but there are consequences to these benefits. With these benefits come responsibilities. With the economic freedom to choose, now we can also choose to refuse to overconsume. (*Sustainable Consumption: Global Status Report*, 2002, UNEP, Paris)

Part of the reasoning behind a sustainability report like this one is to outline where company operations are having the greatest impact and effect change there. For example identifying areas of greatest environmental impact within Australian Ethical allows the company board, management and employees to take responsibility for actions in this area. It is then possible through this sort of identification to improve the way company operations are undertaken from an environmental perspective.

Hence in accordance with tenet (e) of the Australian Ethical Charter, Australian Ethical aims to ameliorate wasteful or polluting practices in its business operations. This section aims to report on company environmental performance for the year ending 30 June 2005.

Australian Ethical Purchasing Policy

Australian Ethical is committed to the following purchasing policy:

- Australian Ethical will consider ethical issues in deciding what to buy;
- Australian Ethical will follow the 4 Rs – Reduce, Reuse, Recycle and Refuse – in considering whether to make purchases;

- In general, Australian Ethical is prepared to pay up to a 20 per cent premium for a more sustainable product and will consider a higher premium for an exemplary product; and
- Australian Ethical will consider alternatives to travel, especially air travel, before business travel is undertaken (e.g. phone conferences).

Eco-efficient Business

‘Eco-efficiency is reached by the delivery of competitively priced goods and services that satisfy human needs and bring quality of life, while progressively reducing ecological impact and resource intensity throughout the life cycle.’ (World Business Council for Sustainable Development, 2004)

Australian Ethical has implemented a number of eco-efficiency practices into business operations in order to do more with less. These include:

- recycling office paper and cardboard. Double-sided printing is used wherever possible and office paper is reused in printers or as notepaper. Password printing is planned to be introduced in the near future. Post-consumer recycled paper is used throughout the organisation;
- recycling of printer toner cartridges;
- printing the ‘Aim High’ newsletter on 100 per cent recycled paper with vegetable-based inks;
- printing the Australian Ethical product disclosure statements on 100 per cent Australian made and recycled, uncoated, chlorine-free paper using vegetable-based inks;
- recycling glass, plastic and aluminium;
- composting organic waste in Australian Ethical’s onsite biodynamic vegetable garden;
- using of environmentally friendly cleaning products, organic milk, tea and coffee, and the avoidance of disposable plates, cups or cutlery;
- installing Winter Windows in two offices to keep warmth in and summer heat out, thus conserving energy; and
- the purchase of Green Power electricity and the offsetting of staff travel, as well as gas consumed in the offices through the year via the Greenfleet initiative.

Paper

By virtue of the business in which it is involved Australian Ethical has certain requirements that see it use substantial amounts of paper. For the year ended 30 June 2005, Australian Ethical used approximately 1.4 million A4 sheets of 100 per cent recycled paper (equivalent to 111 trees using non-recycled paper; see Table 5). Unit trust and superannuation product disclosure statements (PDS) made up approximately 37 per cent (512,323 A4 sheets) of the paper used, newsletters 21 per cent (290,000 A4 sheets), annual trust reports made up 13 per cent of paper used (175,500 A4 sheets) and office printing and photocopying paper made up a further 19 per cent of paper used (265,941 A4 sheets). Annual report to shareholders, half-yearly trust reports, compliment slips, members' statements, and letterhead paper made up the remainder of Australian Ethical's 2004–05 paper use (Table 5).

Table 5: Paper usage for the financial years 2002–03, 2003–04 and 2004–05¹

Paper Usage	2002–03	2003–04	2004–05
A4 Sheets			
Unit Trust PDS	306,000	407,940	120,295
Superannuation PDS	337,493	418,552	392,028
Australian Ethical Float Prospectus	84,000	0	0
Newsletters	160,000	460,000	290,000
Leaflets	104,080	83,900	0
Annual Report to Shareholders	2,394	12,000	8,800
Trust Annual Report	130,000	130,000	175,500
Half Yearly Trust Report	39,000	38,400	13,500
Printer & Photocopier Paper	270,788	287,565	265,941
Letterhead Paper	40,818	26,515	86,667
Compliment Slips (A4 Equivalent)	923	923	2,585
Super Fund Statements (Mail House)	12,724	14,509	24,003
Other	0	11,867	5,374
Total A4 Sheets	1,488,220	1,892,171	1,384,693

¹ Paper usage data excludes paper envelopes.

Paper use for the period covered by this report shows that paper usage actually went down with respect to the paper consumed in the previous two financial years. For this reporting period there was a significant reduction in paper usage for the unit trust PDS, there was also less paper used for the superannuation PDS. Printer and photocopier paper usage was down for this period and there was no paper used for leaflets. Paper used for letterhead increased substantially, up from 26,515 to 86,667 A4 sheets.

The increase in Australian Ethical's total paper use between 2002–03 and 2003–04 was largely due to timing issues in the printing of the 'Aim High' newsletter. Only one issue was printed in the 2002–03 period, compared to three in the 2003–04

reporting period. Greater demand for product disclosure statements will inevitably contribute to an increase in paper usage as more people become involved in the business of investing ethically. Investors can access the product disclosure statements via the Australian Ethical website at any time, though this requires paper usage to be borne by the potential investor when they commit to invest. This is an improvement on product disclosure statements being posted out to interested investors that many times go unused.

It is a combination of Australian Ethical's increased use of email and internet to communicate with external parties that has helped restrict the increased use of paper by Australian Ethical during 2004–05. As technology improves, Australian Ethical hopes to provide more information to its stakeholders via electronic means, cutting down further on paper required in the company operations and reducing Australian Ethical's paper consumption in general.

As a ratio of full-time equivalent employees to total paper used, Australian Ethical used 34,879 sheets of A4 paper per full-time employee in the 2004–05 financial year. Note this figure includes all paper usage by the company, not solely office paper usage. The company aims to reduce this substantially into the future by using other paper saving alternatives, hence reducing this environmental impact further.

For example in the future Australian Ethical will produce product disclosure statements on compact disks to send out to interested investors. Other initiatives due to be trialled include using password printing in the office. This will entail employees punching in a password to print a document, in attempt to avoid unnecessary print jobs that sometimes occur, reports or papers being printed out twice and print jobs being left at a printer and forgotten. This is another initiative that aims to see employees at Australian Ethical taking responsibility for their actions in the office and hence reduce the environmental impact of company operations through reduced paper use.

Stationery

Stationery use, as represented by total dollar costs, decreased by \$866 or 14 per cent in the 2004–05 financial year. Cost per average full-time equivalent staff member declined by \$41 or 20 per cent (Table 6). The reduction in stationery use despite higher staff numbers is again an excellent result largely due to the efforts of Australian Ethical's office administrator, Donna Cameron.

Table 6: Stationery costs for the financial years 2002–03, 2003–04 and 2004–05

Stationery Costs	Financial Year		
	2002–03	2003–04	2004–05
Total cost	\$5,967	\$6,161	\$5,295
Cost/Average FTE staff ¹	\$205	\$203	\$162

¹ Average full-time equivalent (FTE) staff based in Canberra office.

Waste

It is estimated that Australian Ethical produced 3,823 kg of waste in the 2004–05 financial year, compared to the 3,474 kg of waste generated during the 2003–04 financial year. This is 349 kg more than the previous year (Tables 7 and 8). Approximately 3,043 kg (80 per cent) of the 3,823 kg of waste was recycled, while 780 kg (20 per cent) went to landfill. The majority of waste was paper, making up approximately 52 per cent of Australian Ethical's total waste. This is a decrease from the 67 per cent portion made up by paper in the last financial year.

The data was collected by conducting waste audits at Australian Ethical's Canberra offices over two one-week periods in June 2005. Australian Ethical employees were unaware that the audits were happening. This ensured that audit results represented normal waste practices in every day operations. Waste was sorted into five categories: paper; cardboard; recyclable containers; food organics and general waste. The waste was firstly segregated and then weighed.

While the decrease in total waste between 2002–03 and 2003–04 is positive, the increase in waste to landfill (from 367 kg in 2002–03 to 780 kg in 2004–05) is of concern to Australian Ethical. It means that although waste generation is decreasing, more of the waste being generated is going to landfill and hence this indicator shows an increased environmental impact for the company with regard to waste. The majority of the increase was due to increases in the amount of paper, recyclable containers and food organics going to landfill. All of these items can be recycled, so they need not necessarily go to general waste disposal. Hence Australian Ethical is currently implementing strategies to improve recycling and reduce waste going to landfill to reduce this area of impact caused by company operations.

It is worth noting that food organics going to landfill increased on previous years. Food organics going to landfill more than doubled to 442kg for the 2004–05 financial year. Note organic waste will breakdown in landfill given time, hence the

implications in terms of environmental impact are not as grave for organic waste as with general waste, which decreased from 301kg in 2003–04 to 208kg in 2004–05. General waste does not breakdown as readily as it is in most cases not biodegradable.

Waste is an important issue in Australia. A recent book by Hamilton and Denniss, *Affluenza*, has shown that virtually all Australians admit to buying items they never use like food, clothing, shoes, books etc.²

With regard to waste there is much room for improvement in Australia. In a study by Hamilton and Denniss, the results of which were published in *Affluenza*, surveys show that most Australians waste money on uneaten food, which subsequently ends up in the waste stream. In 2004 more than \$5.2 billion worth of food and drink was disposed of through the waste management system (Hamilton and Denniss, 2005). This is an area in Australia where environmental impact by business and households in general can be improved significantly. Generally habit patterns used in the home environment carry through to the work environment and vice versa. Hence this can be identified as a leverage point for change.

Taking responsibility for the waste that we as individuals produce and hence where that waste ends up is fundamental to this environmental performance indicator. It is the rethinking of how the concept 'waste' is defined that will lead to better outcomes in the future for this area of environmental impact. This is the reason behind the underlying driver for waste initiatives supported by Australian Ethical, both in its internal business operations and through investments supported by the company.

² Refer to Wasteful Consumption in Australia, Discussion Paper No.77 Australia Institute, Canberra 2005, Hamilton, Denniss and Baker carried out by Roy Morgan Research in November-December 2004, p103.

Table 7: Waste for the year to 30 June 2005

Waste Type	Weekly Waste (kg)	2004–05 Waste (kg)	% of Waste Sub-Total	% of Total Waste
Waste to Landfill				
Paper	1.0	52	7	1
Cardboard	0.5	26	3	1
Recyclable containers ¹	1.0	52	7	1
Food organics	8.5	442	57	12
General waste ²	4.0	208	26	5
Sub-Total	15.0	780	100	20
Waste Recycled				
Paper	38.4	1,999	66	52
Cardboard	3.3	173	6	5
Recyclable containers ¹	4.3	221	7	6
Food organics	12.5	650	21	17
Sub-Total	58.5	3,043	100	80
Waste Generation Total³	73.5	3,823		100

¹ Includes glass, plastic and aluminium.

² Includes plastic wrappers/bags, tissues, paper hand towels etc.

³ Australian Ethical's Canberra offices only.

Table 8: Waste for the year to 30 June 2004

Waste Type	Weekly Waste (kg)	2003–04 Waste (kg)	% of Waste Sub-Total	% of Total Waste
Waste to Landfill				
Paper	1.7	88	13	3
Cardboard	0.3	14	2	0
Recyclable containers ¹	1.4	74	11	2
Food organics	3.9	201	30	6
General waste ²	5.8	301	44	9
Sub-Total	13.1	678	100	20
Waste Recycled				
Paper	42.7	2,219	79	64
Cardboard	4.8	249	9	7
Recyclable containers ¹	1.1	60	2	2
Food organics	5.1	268	10	7
Sub-Total	53.7	2,796	100	80
Waste Generation Total³	66.8	3,474		100

¹ Includes glass, plastic and aluminium.

² Includes plastic wrappers/bags, tissues, paper hand towel etc.

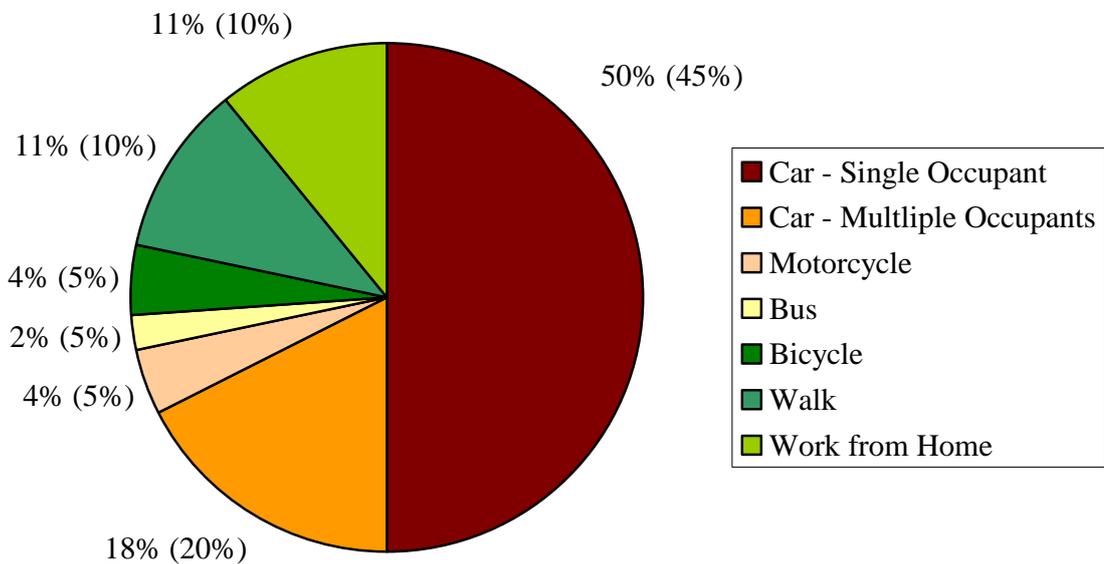
³ Australian Ethical's Canberra offices only.

Staff Transport/Organisational Travel

During 2004–05, 68 per cent of Australian Ethical staff travelled to work by car: 50 per cent travelling alone and 18 per cent car pooling (Figure 5). The remaining staff used a variety of transport methods, including motorcycle, bus, bicycle, and walking. Eleven per cent of staff worked from home (Figure 5).

As part of their work, Australian Ethical staff undertook 297 flights and 149 taxi cab trips during the year. Australian Ethical offsets this travel by purchasing enough trees through Greenfleet to make up for the greenhouse gas emissions created by the company travel. In addition to this and in support of sustainable travel within the company, the sustainability committee also has an initiative known as ‘Alternative Transport Day’, held on the last Friday of every month. This initiative acts on two levels. The first level encourages employees to think about alternatives to travelling to work that do not consume fossil fuels. The second encourages staff, as a social capital building exercise, to get together for a healthy breakfast to start the day with fresh juice, fruit and muffins before work.

Figure 5: **Primary transport used by Australian Ethical staff to commute to work in the year to 30 June 2005. Figures for the previous year are shown in brackets.**



Office Space

Total occupied space utilised by Australian Ethical was estimated to be 833 square metres at the end of the reporting period covered by this report. To enable more accurate data estimates for the report, office space calculations were made on a time weighted average basis throughout the year covered. Due to the fact that corridors are not heated, nor used as offices, calculations have excluded major corridor space used by Australian Ethical. Occupied space at Australian Ethical's Canberra offices (excluding major corridors) increased from 562 square metres in June 2004 to 650 square metres in June 2005 (Figure 6). The time weighted average office space for the year was 591 square metres and office space per full-time equivalent (FTE) staff member declined by two per cent to 18.1 square metres. This is due to the increased number of full-time equivalent staff in the Canberra office (Table 9). This is slightly below the average Australian office space density of 20.6 sqm (Warren, 2003), but needs to be considered in the context of it not including major corridor space at the company offices.

Figure 6: Australian Ethical office space (sqm) from July 2002 to June 2005

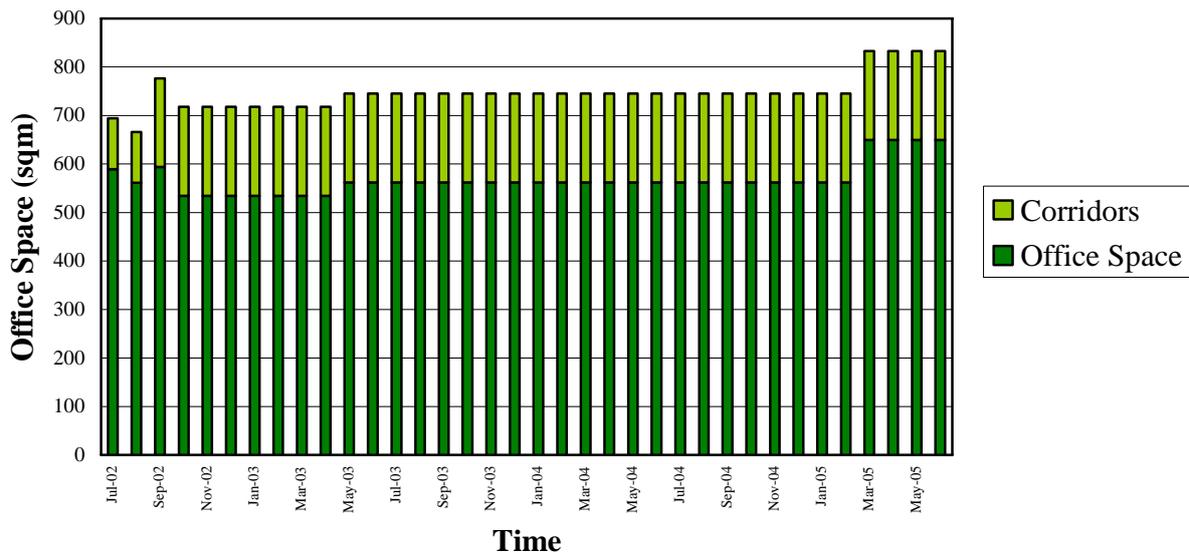


Table 9: Australian Ethical office space for the financial years 2002–03, 2003–04 and 2004–05

Australian Ethical Office Space	Financial Year		
	2002–03	2003–04	2004–05
Time weighted average office space (sqm)	551	562	591
Average FTE staff based in Canberra office	29.1	30.4	32.6
Space per person (sqm) ¹	18.9	18.5	18.1
Change in space per person	5%	-3%	-2%

¹ Space per person = Time weighted average office space (sqm)/average full-time equivalent staff based in Canberra office.

Energy

Electricity and gas are supplied to Canberra Business Centre tenants through communal/shared meters. In order to estimate Australian Ethical's usage, occupancy-rate weighted estimates of electricity and gas usage per square metre for the centre (net of corridors) were calculated, and multiplied by the square metres occupied by Australian Ethical (net of corridors). This method shows that an estimated 68,183kWh of electricity was used by Australian Ethical in 2004–05. Compared to 74,515 kWh of electricity used during 2003–04, this is just over 90 per cent of the total consumed over the last financial year, so it is a better result in terms of environmental impact of the company this year. Gas usage had previously remained relatively stable for 2002–03 and 2003–04 in the office space of Australian Ethical. In 2004–05 due to the drought and temperatures that kept heating requirements lower than usual, gas consumption for the centre was substantially lower than average (Tables 10 and 11). Note energy calculations here are estimates only, as Australian Ethical's gas and electricity usage is influenced by the amount of gas and electricity used by other businesses within the business centre. Hence there are factors outside of Australian Ethical's control that influence energy usage figures at the business centre and impinge on the impact of company operations.

Table 10: Electricity usage for the financial years 2002–03, 2003–04 and 2004–05

Electricity Used	Financial Year		
	2002–03	2003–04	2004–05
kWh/sqm ¹	111	133	116
Total Australian Ethical kWh ²	61,419	74,515	68,183

¹ Canberra Business Centre electricity usage.

² Kilowatt-hours (kWh) used by Australian Ethical based on floor space occupied.

Table 11: Gas usage for the financial years 2002–03, 2003–04 and 2004–05

Gas Used	Financial Year		
	2002–03	2003–04	2004-2005
MJ/sqm ¹	443	447	335
Total Australian Ethical MJ ²	251,561	251,252	195,005

¹ Canberra Business Centre gas usage.

² Megajoules (MJ) used by Australian Ethical based on floor space occupied.

Australian Ethical’s total energy consumption (gas and electricity) for 2004–05 was 440,4634 MJ. This is 41 per cent below the target benchmark used by the Commonwealth Government for energy consumption in its properties (Table 12) and a substantial improvement on consumption in 2003–04. This Commonwealth benchmark includes energy used by central services (i.e. air-conditioning, heating and hot water) as well as tenant light and power (i.e. office equipment). It should be noted that the Australian Greenhouse Office states this benchmark represents ‘a moderate challenge to the average office building’ and suggests there is ‘little excuse not to be able to meet these figures’ (AGO 2004). In the context of other more rigorous benchmarks, Australian Ethical’s energy consumption was slightly above the Property Council of Australia’s best practice benchmark for existing office buildings at 439,113 MJ. This is an improvement on last year, which saw energy consumption well above this Property Council benchmark at 519,508 MJ.

Nevertheless Australian Ethical’s energy consumption is still well above the Council’s more demanding ‘design target’ benchmark for new buildings. This design benchmark will become more relevant for Australian Ethical when it eventually moves into its planned purpose built office. The planned office space will be designed to factor in sustainability principles like the reduction of energy consumption by the building. In the context of these benchmarks, Australian Ethical still has areas where improvements in energy use can be made. The purpose built exemplary green building, planned for construction in the next couple of years, will enable accurate measurement of energy and gas usage as well as better control of company resource use over time. It is planned that this proposed new building will lower the environmental impact the company has through its business operations further still. This current report represents the most accurate estimates possible for energy usage in the office space that Australian Ethical currently utilises at the Canberra Business Centre.

Energy usage (MJ)/space per person (which takes account of changes in staff and spacing levels over time) decreased by 14 per cent between 2003–04 and 2004–2005 (Table 12). This shows that in addition to an overall reduction in energy usage, Australian Ethical is actually using less energy as a ratio against space taken up by people employed by the company, which is a good result.

Table 12: **Energy usage for the financial years 2002–03, 2003–04 and 2004–05**

Energy Used	Financial Year		
	2002–03	2003–04	2004–05
Total energy MJ ¹	472,669	519,508	440,464
Commonwealth benchmark MJ ²	565,896	585,050	621,590
Best Practice Existing Building MJ ³	409,393	417,566	439,113
New Building Design Target MJ ³	290,377	296,174	311,457
MJ/Average FTE staff ⁴	16,265	17,078	13,507
Space per person (sqm) ⁵	18.9	18.5	18.1
MJ/space per person	24,947	28,135	24,305
Change in MJ/space per person	2%	13%	-14%

¹ Sum of total gas and electricity usage, where 1 kWh = 3.6 MJ.

² Target benchmark for total annual energy consumption in Commonwealth Government properties, calculated as follows: Energy target (MJ per annum) = 500A+10,000N, where A is the floor area in m² and N is the number of staff.

³ Property Council of Australia Energy Guidelines for Office Buildings (2001). Includes gas heating and hot water, plus the use of electricity for other appliances.

⁴ Average full-time equivalent staff based in Canberra office.

⁵ Space per person = Time weighted average office space (sqm)/average full-time equivalent staff based in Canberra office.

Global Warming and Greenhouse Gas Emissions

Human-induced global warming or climate change is one of the greatest long-term threats to human kind and most other species on the planet. It will increasingly affect most aspects of our daily lives. Whilst climatic fluctuations have always naturally occurred, the current levels of carbon dioxide in the atmosphere are unprecedented for the last 400,000 years (Hargroves and Smith, 2005). Severe storms, droughts, fires, the melting of the world's icecaps, and potentially massive reductions in arable farm land are just some of the results of human-created global warming now visible and measurable. This warming is caused by massive increases in the levels of greenhouse gas emissions – carbon dioxide, methane, nitrous oxides and chlorofluorocarbons – as a result of the broadscale clearing of forests, woodlands, and wetlands for development, intensive mining, and the burning of massive amounts of coal and oil (Lowe, 2005). Whilst these activities have translated into economic wealth and kudos for businesses small and large and for their immediate shareholders, they have largely failed to benefit other more important stakeholders –

diverse and complex ecosystems that make up our environment, other species and future generations to come, including all our children and children's children.

Resource consumption and global warming are intimately interlinked. We can reduce the effects of global warming by changing our behaviours, and more fundamentally, by de-linking cultural beliefs concerning prosperity, resource consumption and economic growth. Through fundamentally changing the way in which we act and consume, we can have an influence on the environmental impact we have through basic everyday activities.

During 2004–05 Australian Ethical saved the equivalent of 78.93 tonnes of carbon dioxide from entering the atmosphere, and offset a further 46.57 tonnes. The fact that Australian Ethical offsets carbon dioxide equivalent emissions makes the company carbon neutral for the year covered by this report (Table 13). Australian Ethical saved 71.87 tonnes of carbon dioxide by purchasing 68,183 kWh of Green Power electricity from ActewAGL under the GreenChoice program.³ The company also saved a further 7.06 tonnes of carbon dioxide by recycling 80 per cent (3.043 tonnes) of the waste that it generated in the period covered by this report.

The company offset 46.57 tonnes of carbon dioxide (from natural gas, waste to landfill, flights and taxi cab trips) through the purchase of 174 native trees from Greenfleet (www.greenfleet.com.au).

³ Green Power is generated from renewable sources such as mini-hydro, biomass, wind and solar.

Table 13: **Greenhouse gas (GHG) emissions for the year to 30 June 2005¹**

GHG emissions (t CO2-e)	Saved	Generated	Offset	Net
Electricity	71.87	0.00	0.00	0.00
Gas	0.00	13.90	13.90	0.00
Waste Recycled	7.06	0.00	0.00	0.00
Waste to Landfill	0.00	1.13	1.13	0.00
Air flights	0.00	30.96	30.96	0.00
Taxi cabs	0.00	0.58	0.58	0.00
Total	78.93	46.57	46.57	0.00

¹ Emissions have been calculated using the Australian Greenhouse Office Workbook figures. These figures are based on 2001-02 values. The emission factor used is based on an average for NSW and the ACT. This means the ACT value has also had the larger load and loss factors of NSW factored into them.

Table 14: **Greenhouse gas (GHG) emissions for the year to 30 June 2004¹**

GHG emissions (t CO2-e)	Saved	Generated	Offset	Net
Electricity	78.54	0.00	0.00	0.00
Gas	0.00	17.91	17.91	0.00
Waste Recycled	7.31	0.00	0.00	0.00
Waste to Landfill	0.00	0.95	0.95	0.00
Air flights	0.00	32.41	32.41	0.00
Taxi cabs	0.00	0.39	0.39	0.00
Total	85.85	51.66	51.66	0.00

¹ Emissions have been calculated using the Australian Greenhouse Office Workbook figures. These figures are based on 2001-02 values. The emission factor used is based on an average for NSW and the ACT. This means the ACT value has also had the larger load and loss factors of NSW factored into them.

Water Conservation and Consumption

Australia is the world's second-driest continent. It has a naturally saline environment and European farming practices combined with rampant land clearing have over time caused a rise in sub-surface water in Australia. Despite Australia being one of the driest inhabited continents on earth, it has placed great reliance on water resources for economic development, in particular in rural areas. Overuse of water resources means Australia now faces the real problem of water scarcity. This has required significant changes in Australia's approach to water use and hence the Australian population has increasingly become aware of issues surrounding water scarcity.

To put our local water use in a global perspective, the average African family uses 19 litres per day compared to 930 litres per day for a Canberran (this figure comes from an ActewAGL report for annual single residence use). In our bioregion of Canberra and South East New South Wales, we rely on the Murrumbidgee River which flows into the Murray Darling system. For this river system to survive, it is estimated that 20–40 per cent of irrigation water needs to be returned to its upper reaches. This could require as much as 1500 billion litres of extra flow per annum, 1000 billion litres more than the present Australian government has committed to restoring (Murray-Darling Basin Ministerial Council, 2002). Often the way we use the land is incompatible with the landscape and river systems we draw upon, especially on one of the driest continents on earth.

Water is supplied to Australian Ethical's Canberra office through a single shared meter. This makes calculation of Australian Ethical's total water use difficult. An estimate of Australian Ethical's water use has been made similar to the calculation methodology used for electricity consumption. Based on these estimates, Australian Ethical's water use [in kilolitres (kl)/space per person] increased by 65 per cent in 2004–05 to 374 kl (Table 15). However, this figure should be treated with caution. It is not a clear representation of Australian Ethical's water consumption, as there were a number of major leaks in the business centre where the company has office space during the year covered by this report. These leaks were in parts of the business centre not associated with Australian Ethical's operations, therefore they distort calculations and Australian Ethical's true water usage patterns.

Table 15: Water usage for the financial years 2002–03, 2003–04 and 2004–05

Water Used	Financial Year		
	2002–03	2003–04	2004–05
kl/sqm ¹	0.65	0.40	0.63
Total kl ²	356	227	374
Sydney Water best practice water consumption kl	441	450	473
kl/average FTE staff ³	12.3	7.4	11.5
Space per person (sqm) ⁴	18.9	18.5	18.1
kl/space per person	18.79	12.27	20.63
Change in kl/space per person	104%	-35%	65%

¹ Canberra Industry Training Development Centre Board Inc water usage.

² kl used by Australian Ethical based on floor space occupied.

³ Average full-time equivalent staff based in Canberra office.

⁴ Space per person = Time weighted average office space (sqm)/average full-time equivalent staff based in Canberra office.

In 2004 Sydney Water engaged the Department of Commerce to carry out a number of water audits in commercial buildings in partnership with 200 of the largest commercial and industrial water users in NSW. A publication titled *Water conservation – Best practice guidelines for cooling towers in commercial buildings* was produced to show the results of these audits. Audits identified commercial best practice in Sydney to be 0.8 kilolitres per square metre per annum for a typical office building.

Major areas of water usage in commercial buildings are the amenities, which account for between 17 and 37 per cent. Air-conditioning cooling towers consume between 17 and 31 per cent. Around 25 per cent of water used can be lost through leakage and only about 1 per cent of water was identified as consumed through irrigation in the source used here as a water benchmark (Sydney Water, 2004).

Australian Ethical's current office space is in a two storey building with no cooling towers. Due in part to this, the water consumption rate presented is favourable to the benchmark used, which compared commercial buildings that do use cooling towers. Australian Ethical's water consumption rate is still better than the benchmark set, despite the substantial leaks found in the building in this reporting period. According to the benchmark established by Sydney Water, Australian Ethical should aim to consume equivalent to or less than 472.8 kilolitres of water according to the commercial office space in square metres used by Australian Ethical business operations. Although it compares Australian Ethical, a small to medium size enterprise, with the water consumption rates of very large commercial office spaces, this benchmark still gives an indication of where the company is placed in terms of its water usage over the reporting periods covered thus far. In the absence of other

relevant Australian water consumption benchmarks, this metric will be used as a gauge for water consumption over time by Australian Ethical in its reporting regime.

Environmental Impacts of Products and Services

Australian Ethical's unit trusts and Australian Ethical Superannuation's superannuation strategies aim to pursue the goal of a just and sustainable society and the protection of the natural environment.

Australian Ethical invests in approximately 100 individual investments in the four unit trusts. Investments cover large and small enterprises, long and short terms, as well as the asset classes of interest-bearing securities, equities (shares) and property. They include renewable energy, recycling, permaculture, eco-tourism, pollution reduction, health care and not-for-profit organisations.

Environmental Regulation

The operations of Australian Ethical are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a state or territory. Australian Ethical has not incurred any environmental liabilities during the year.

Social Performance Indicators

In accordance with tenet (h) of the Australian Ethical Charter, Australian Ethical aims to encourage, care for and provide educational opportunity for fellow workers, as well as respect their individual needs and aspirations. This section aims to report on Australian Ethical's social performance for the year ending 30 June 2005.

Australian Ethical Workforce

The majority of the company's 46 employees work on a permanent, full-time basis in the Canberra office. Fifteen employees work part-time, equivalent to 8.7 full-time staff. As at 30 June 2005 Australian Ethical had one employee on a fixed-term contract. Table 16 provides a breakdown of the Australian Ethical workforce according to the nature of their employment.

Table 16: **Australian Ethical's workforce by status, employment type, employment contract and location as at 30 June 2003, 2004 and 2005**

Australian Ethical's workforce	Balance Date		
	30.06.2003	30.06.2004	30.06.2005
<i>Status</i>			
Employees – number of staff	38	40	46
Ongoing contractors – number of people ¹	1	1	1
Total staff number (including casuals & contractors) ¹	38	40	46
Employees – FTE ²	31.8	35.1	39.4
Ongoing contractors – FTE	0.4	0.4	0.3
Total FTE staff (including casuals & contractors)	32.2	35.5	39.7
<i>Employment type</i>			
Full-time	24	27	31
Part-time – number of staff	14	13	15
Part-time – FTE	8.2	8.5	8.7
<i>Employment contract</i>			
Indefinite or permanent – number of staff	38	40	45
Indefinite or permanent – FTE	32.2	35.5	39.1
Fixed term or temporary – number of staff	0	0	1
Fixed term or temporary – FTE	0	0	0.6
<i>Employment location</i>			
Canberra office – number of staff	33	36	41
Canberra office – FTE	28.7	32.1	35.5
Other – number of staff	5	4	5
Other – FTE	3.5	3.4	4.2

¹ Some Executive Directors work as both employees and ongoing contractors.

² Full-time equivalent (FTE).

Employee Creation and Staff Turnover

As at 30 June 2005, Australian Ethical employed a total of 46 staff, representing a net increase of six staff (15 per cent) over the previous year (Table 17). Full-time equivalent staff increased by 4.2 (11.8 per cent). Staff turnover as a percentage of FTE staff increased from 6.6 per cent in 2003–04 to 20.3 per cent in 2004–05 (Table 18). There were 5 employees that left Australian Ethical during this reporting period. This has presented an unusually high turnover rate for the company, bringing the traditionally low turnover rate (7–8 per cent) for Australian Ethical up to 20 per cent for the end of the 2004–05 financial year.

Table 17: Net employment creation for the financial years 2002–03, 2003–04 and 2004–05

Employment creation	Financial Year		
	2002–03	2003–04	2004–05
Net increase in staff numbers for year	0	2	6
Total staff number at 30 June	38	40	46
Increase in staff numbers for year	0.0%	5.3%	15.0%
Net increase in FTE staff for year	0.0	3.3	4.2
Total FTE staff at 30 June	32.2	35.5	39.7
Increase in FTE staff for year	0.0%	10.2%	11.8%

Table 18: Staff turnover for the financial years 2002–03, 2003–04 and 2004–05

Staff turnover	Financial Year		
	2002–03	2003–04	2004–05
Full-time staff departing	2	1	5
Part-time staff departing – people	1	5	4
Part-time staff departing – FTE	0.53	1.11	2.2
Total FTE staff at 30 June	32.2	35.5	39.7
Staff turnover (% of FTE staff)	7.9%	6.6%	20.3%

Employee Benefits beyond those Legally Mandated

Australian Ethical aims to be an exemplary employer. It values each individual as a member of a unified team. In support of this the company provides employee benefits that go beyond those legally mandated. In particular, the Company has the following employment conditions:

- flexible working hours, subject to business needs;
- six weeks paid maternity and adoption leave for staff who have a minimum of 12 months continuous service;

- up to three days paid compassionate leave as often as required;
- allowing sick leave to be used to care for sick relatives;
- paternity leave;
- up to three hours paid study leave per week, plus up to two days paid study leave per year to prepare for examinations or to finalise course work;
- three days additional leave between Christmas and New Year;
- the choice of being paid monthly or fortnightly;
- a subsidised personal development program; and
- free access for staff and their families to a counselling service.

Workplace agreements vary from industry to industry, as well as within industries in Australia. Hence Australian Ethical has identified the ACT Public Service Clerks (A.C.T.) Award 1998 (varied to 20 June 2003) as a benchmark from which to ascertain standard mandated employment benefits and then consider what Australian Ethical benefits go beyond this benchmark.

In addition, under clause 2.2 of the company constitution, Australian Ethical is required to have regard for the status of its employees, to promote employee ownership of the company and to report on the status of employees at the time of the Annual General Meeting. With respect to this element of the company's founding document, Australian Ethical:

- requires company employees elect a staff advocate to represent staff through direct contact with the board;
- has an employee share ownership plan for the issue of share options to staff;
- pays an annual bonus to employees.

Annual leave

As at 30 June 2005, the average annual leave accrued per full-time equivalent staff member was 17.7 days (approximately three and a half weeks), 0.1 of a day lower than at 30 June 2004 (Table 19).

Table 19: Average annual leave accrued (days) per FTE staff as at 30 June 2003, 2004 and 2005

Annual leave accrued	Balance Date		
	30.06.2003	30.06.2004	30.06.2005
Average annual leave accrued (days)/FTE staff	17.0	17.8	17.7

Health and Safety

Australian Ethical is committed to ensuring a safe and healthy place in which to work, including its off-site staff, and will observe all relevant regulations for working conditions. Australian Ethical records all workplace injuries on a work injury register. There was one minor injury recorded during the 2004–05 financial year. The injury was treated by first aid, with no further medical attention required.

Average sick leave taken per full-time equivalent employee rose from 4.3 days in 2003–04 to 6.0 days in 2004–05 (Table 20). The rise, however, was largely a result of a small number of officers requiring significant periods of convalescence.

Table 20: **Sick leave taken (days) during the financial years 2002–03, 2003–04 and 2004–05**

Sick leave taken during year	Financial Year		
	2002–03	2003–04	2004–05
Average sick leave taken (days)/FTE staff	5.6	4.3	6.0

Employee Training

Immense benefits for both employees and the company arise from a commitment to employee training. Employee training and development provides clear advantages to employees as each employee increases their skill base. Hence the company obviously benefits from the increases in theoretical and practical knowledge of its employees with increases in the productivity and efficiency of its workforce. Investing in training has more subtle advantages for both employee and company such as increasing the job satisfaction of employees and creating recognition within the organisation. Apart from these intrinsic benefits for the employee, it also benefits the company by increasing staff retention rates. Employee satisfaction also enhances the company's reputation as an employer and increases attraction to the company as a potential workplace. Australian Ethical remains committed to the training and development of its employees. The company, employees and other stakeholders enjoy the benefits of increased social capital, increased efficiency and enhanced productivity of the workforce.

During the 2004–05 financial year Australian Ethical staff completed a total of 3,621 hours of training and development, at an average of 98 hours per full-time equivalent staff member (Table 21). This was significantly higher than in the 2003–04 financial year when Australian Ethical staff completed a total of 2,708 hours of training and development at an average of 80 hours per full-time equivalent staff member (Table 22). The increase was a result of more staff undertaking paid training and study, as

well as new recruits enhancing skills to perform the duties required by their position. Paid training and study, as a proportion of total Australian Ethical staff training, went from 48 per cent in 2003–04 to 30 per cent in 2004–05. With regard to private study (conducted outside work hours but financially supported by Australian Ethical) there was a substantial increase from 52 per cent in 2003–04 to 70 per cent in 2004–05. According to these results it can be concluded that, although paid training and study has reduced on last year's figures, this is a result of more people taking on longer term study commitments that involve more private study time outside work hours.

Paid training and study undertaken by non-executive staff went from an average 29 hours per full-time equivalent in 2003–04 to 24 hours in 2004–05, while paid training and study undertaken by executive officers went from an average 83 hours per full-time equivalent in 2003–04 to an average 61 hours in 2004–05. The results for private study for non-executive staff went from 48 hours per full-time equivalent in 2003–04 to 75 hours per full-time equivalent in 2004–05. For executive officers the private study hours per full-time equivalent went from 10 hours in 2003–04 to 34 hours per full-time equivalent in 2004–05. This shows a clear trend towards less study time directed at paid training in the form of courses during working hours, to more long term commitment towards private study outside of work time. This trend appears to apply to both non-executive staff and executive staff employed at Australian Ethical for this reporting period.

A total of \$79,344 was spent on training and development in the 2004–05 financial year. This equates to \$2,156 per full-time equivalent staff member.

Table 21: Training undertaken by staff during the year to 30 June 2005

Category	Paid Training/Study ¹	Private Study ²	Total Training
Executive Officers			
Total hours	304	170	474
Hours/Executive Officer FTE	61	34	95
Non Executive Staff			
Total hours	778	2,369	3,147
Hours/Staff FTE	24	75	99
All Australian Ethical Staff			
Total hours	1,082	2,539	3,621
Hours/All staff FTE	29	69	98

¹ Structured training/study conducted during work hours for which Australian Ethical paid as work time (including paid study leave).

² Structured training conducted outside work hours for which Australian Ethical provided financial support.

Table 22: Training undertaken by staff during the year to 30 June 2004

Category	Paid Training/Study ¹	Private Study ²	Total Training
Executive Officers			
Total hours	479	60	539
Hours/Executive Officer FTE	83	10	94
Non Executive Staff			
Total hours	820	1,349	2,169
Hours/Staff FTE	29	48	77
All Australian Ethical Staff			
Total hours	1,299	1,409	2,708
Hours/All staff FTE	38	42	80

¹ Structured training/study conducted during work hours for which Australian Ethical paid as work time (including paid study leave).

² Structured training conducted outside work hours for which Australian Ethical provided financial support.

Personal Development Program

Australian Ethical's personal development program aims to incorporate the Australian Ethical Charter into the operations of the company. The program is an initiative whereby Australian Ethical seeks to 'contribute to human happiness, dignity and education' and subsidises the pursuit of personal development activities. The personal development program began with a subsidised yoga program at the offices of the company to incorporate health, safety and stress relief into the working week. All staff are encouraged to pursue an individual personal development program that suits their needs. Diversity is encouraged and the program covers any activity that is not contrary to the charter or the spirit of the company. The personal

development program covers activities such as yoga, swimming and other sporting events, gym membership, painting, public speaking, dance and music.

Employee Assistance Program

The Employee Assistance Program provides access to free counselling to all employees and their immediate families. The service is provided by IPS Worldwide, a human resources, risk management and health services company, offering face-to-face and telephone counselling for work, personal and family issues.

Equal Opportunity Policy

Equal employment opportunity is a complex issue that requires ongoing attention in all sectors and organisations. The legislation behind the principle of equal opportunity has existed since 1975 although a widespread attitude change is still taking place. Recognising and valuing the importance of diversity is an ongoing task that requires an active approach. Australian Ethical's Equal Employment Opportunity policy incorporates the following principles:

- All employees shall receive fair and equitable treatment in all aspects of employment without regard to political affiliation or beliefs, union membership, gender, marital status, sexual orientation, pregnancy, physical disability or ethnic origin;
- Equal pay will be provided for equal work.

The composition of Australian Ethical's corporate governance bodies and employees is shown in Table 23. Between 30 June 2004 and 30 June 2005 the proportion of females on Australian Ethical Investment's board increased from 17 per cent to 33 per cent due to the appointment of Naomi Edwards to the board. The proportion of female board members on Australian Ethical Superannuation's board remained at 40 per cent (Table 23). The proportion of female staff members remained unchanged for the compliance committee and executive officers between 30 June 2004 and 30 June 2005 (Table 23). The proportion of females in administrative roles fell slightly from 67 per cent to 65 per cent as did females in management, declining from 22 per cent to 20 per cent (Table 23). Females in professional roles also fell from 23 per cent to 13 per cent.

Table 23: Composition of corporate governance bodies and employees as at 30 June 2004 and 2005

Category ¹	Balance Date					
	30.06.2004			30.06.2005		
	Female	Male	% Female	Female	Male	% Female
Australian Ethical Board	1	5	17	2	4	33
AES Board	2	3	40	2	3	40
Compliance Committee	1	2	33	1	2	33
Executive Officers	2	4	33	2	4	33
Management	2	7	22	2	8	20
Professional	3	10	23	2	14	13
Administrative	12	6	67	13	7	65

¹ A number of employees are included in more than one category.

The ratio of female to male salaries for the 2004–05 financial year vary between hierarchy levels. For Management, with the inclusion of the CEO, salaries are skewed in favour of females (Table 24). The salary ratio for the professional hierarchy is skewed towards males while the administration hierarchy is approximately 1:1 (Table 24). For the female professionals ratio, due to there being less females in this current reporting period the percentage figure has been brought down. This reflects a currently higher proportion of professional males versus professional females at the company for the period ending 30 June 2005.

Table 24: Ratio of female to male salaries per hierarchy level during the financial years 2002–03, 2003–04 and 2004–05

Category	Financial Year		
	2002–03	2003–04	2004–05
	F:M Salary Ratio (%)	F:M Salary Ratio (%)	F:M Salary Ratio (%)
Management	120	120	129
Professional	101	108	87
Administrative	108	101	101

Staff Advocate

Gary Leckie continued as the staff advocate during the year. The role of the staff advocate is to facilitate communication between staff, management and the board of Australian Ethical. In particular, the staff advocate represents a non-management staff perspective at board level. It is a cooperative, consultative position.

Sustainability Seminar

In June, Australian Ethical staff attended a sustainability training seminar conducted by Matthew Green from (SF)2 (Step Forward to a Sustainable Future). The seminar focused on the Natural Step Framework which helps organisations address key environmental issues from a systems perspective. It focuses on first-order principles at the beginning of cause-effect relationships. The seminar provided staff with a deeper understanding of sustainability issues.

Volunteering

As an additional initiative that is part of the company commitment to the Australian Ethical Charter, the company supports staff volunteering their time to organisations whose aims are consistent with the charter. Under the volunteering policy, staff are able to undertake one day of volunteer work each year (or blocks of time equivalent to one day) with approved organisations instead of their normal work. Organisations currently on the approved list include the Red Cross and Greening Australia. A number of staff have taken the opportunity to volunteer their time in 2005 and through this volunteering achieve a positive impact in the circle of influence in which the chosen organisations work.

Staff survey

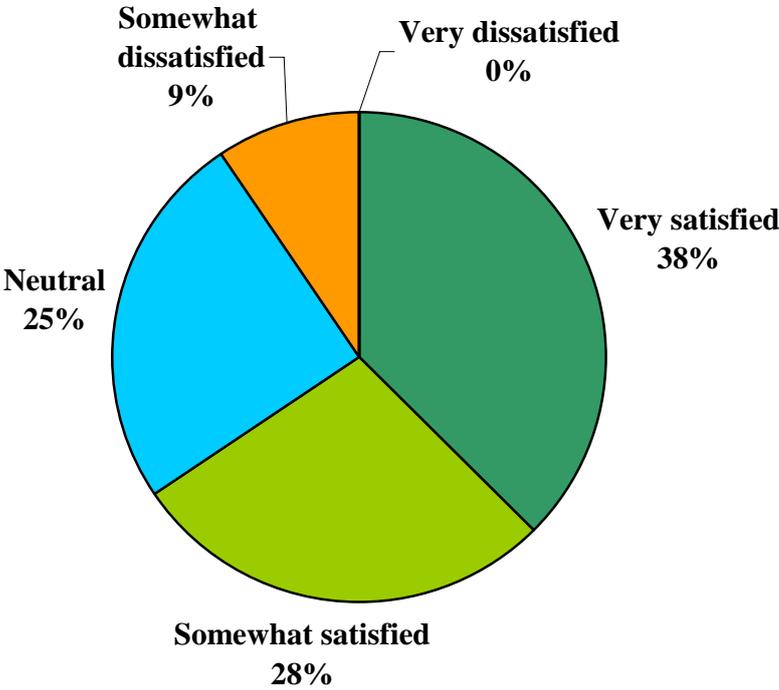
Australian Ethical seeks to encourage, care for and provide educational opportunities for its workers, and respect their individual needs and aspirations. In keeping with this goal, Australian Ethical conducts regular staff surveys to address the question: does the company practice what it preaches? The 2005 survey included questions from previous surveys (referring to the charter) plus a number of new questions relating to areas required by the global reporting initiative. These covered:

- job security;
- pay and benefits;
- work-life balance;
- training and development;
- internal communications; and
- the company's social and environmental performance.

The survey was conducted by the Centre for Australian Ethical Research in February 2005. Overall, the majority of staff were satisfied with Australian Ethical. Staff rated the company highly in a number of areas including job security, flexibility of hours, benefits and communication (from both their supervisors and the company). Areas with a moderate level of dissatisfaction included orientation and training, workload,

the bonus, mentoring and the performance appraisal process. Areas receiving the lowest satisfaction levels included salary, the connection between pay and performance, and the physical working environment. Salary concerns have been addressed through minor adjustments following a survey of pay rates elsewhere and negotiations on the construction of an environmentally exemplary building are likely to lead to an improvement in the physical work environment. To date Australian Ethical has not linked pay and performance.

Figure 7: Overall satisfaction of staff with Australian Ethical



Concluding Remarks

This 2005 Sustainability Report is Australian Ethical's fourth such report. Each report has been prepared with reference to the Global Reporting Initiative. Australian Ethical is one of a very select few 'small to medium enterprises' around the world that can boast such a strong history of sustainability reporting. Through the company's ethical research providers, CAER, Australian Ethical has shared their sustainability reporting experience with other similar sized enterprises in a multi-stakeholder engagement process that the above mentioned reporting initiative used to develop the 'Hi5!' handbook for smaller reporters.

Australian Ethical is well-known for the strong approach taken over the years through the implementation of the Australian Ethical Charter in the investment selection process. It is not so well known that this charter also plays a fundamental role in the management of the company. Australian Ethical's management strives to meet the objectives of the charter in the daily running of the business. Hence sustainability reporting provides an important vehicle for communication of progress in environmental, social and ethical areas. Through this kind of reporting all stakeholders involved in the company are kept informed of Australian Ethical's operations, impact and initiatives.

For further information on Australian Ethical's economic, environmental and social activities, please contact:

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Appendices

Appendix A – Global Reporting Initiative (GRI) Content Index

Source: Global Reporting Initiative (GRI) 2002 Sustainability Reporting Guidelines

GRI elements and indicators included in Australian Ethical's 2005 Sustainability Report are shaded.

GRI Elements	Reported
1 VISION AND STRATEGY	
1.1 Statement of the organisation's vision and strategy regarding its contribution to sustainable development.	Yes – p 3
1.2 Statement from the CEO (or equivalent senior manager) describing key elements of the report.	Yes – p 1
2 PROFILE	
<i>Organisational Profile</i>	
2.1 Name of reporting organisation.	Yes – p 4
2.2 Major products and/or services, including brands if appropriate.	Yes – p 4
2.3 Operational structure of the organisation.	Yes – p 4
2.4 Description of major divisions, operating companies, subsidiaries, and joint ventures.	Yes – p 4
2.5 Countries in which the organisation's operations are located.	Yes – p 4
2.6 Nature of ownership; legal form.	Yes – p 4
2.7 Nature of markets served.	Yes – p 4
2.8 Scale of the reporting organisation:	Yes – p 4
2.9 List of stakeholders, key attributes of each, and relationship to the reporting organisation.	Yes – p 20
<i>Report Scope</i>	
2.10 Contact person(s) for the report, including e-mail and web addresses.	Yes – p 59
2.11 Reporting period (e.g., fiscal/calendar year) for information provided.	Yes – p 1
2.12 Date of most recent previous report (if any).	Yes – p 1
2.13 Boundaries of report and any specific limitations on the scope.	Yes – p 1 & 23
2.14 Significant changes in size, structure, ownership, or products/services that have occurred since the previous report.	Yes – p 4 & 23
2.15 Basis for reporting on joint ventures, partially owned subsidiaries, leased facilities, outsourced operations, and other situations that can significantly affect comparability from period to period and/or between reporting organisations.	Yes – p 5
2.16 Explanation of the nature and effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement.	
<i>Report Profile</i>	
2.17 Decisions not to apply GRI principles or protocols in the preparation of the report.	
2.18 Criteria/definitions used in any accounting for economic, environmental, and social costs and benefits.	Yes – p 71
2.19 Significant changes from previous years in the measurement methods applied to key economic, environmental, and social information.	
2.20 Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability that can be placed on the sustainability report.	Yes – p 23
2.21 Policy and current practice with regard to providing independent assurance for the full report.	Yes – p 24
2.22 Means by which report users can obtain additional information and reports about economic, environmental, and social aspects of the organisation's activities, including facility-specific information (if available).	Yes – p 59
3 GOVERNANCE STRUCTURE AND MANAGEMENT SYSTEMS	
<i>Structure and Governance</i>	
3.1 Governance structure of the organisation, including major committees under the board of directors that are responsible for setting strategy and for oversight of the organisation.	Yes – p 9 & 10
3.2 Percentage of the board of directors that are independent, non-executive directors.	Yes – p 8
3.3 Process for determining the expertise board members need to guide the strategic direction of the organisation, including issues related to environmental and social risks and opportunities.	
3.4 Board-level processes for overseeing the organisation's identification and management of economic, environmental, and social risks and opportunities.	Yes – p 8–10 & 13
3.5 Linkage between executive compensation and achievement of the organisation's financial and non-financial goals (e.g., environmental performance, labour practices).	Yes – p 11

GRI Content Index (Continued)

GRI Elements	Reported
3.6 Organisational structure and key individuals responsible for oversight, implementation, and audit of economic, environmental, social, and related policies.	Yes – p 13
3.7 Mission and values statements, internally developed codes of conduct or principles, and policies relevant to economic, environmental, and social performance and the status of implementation.	Yes – p 3, 14 & 15
3.8 Mechanisms for shareholders to provide recommendations or direction to the board of directors.	Yes – p 21
Stakeholder Engagement	
3.9 Basis for identification and selection of major stakeholders.	
3.10 Approaches to stakeholder consultation reported in terms of frequency of consultations by type and by stakeholder group.	Yes – p 21
3.11 Type of information generated by stakeholder consultations.	Yes – p 20
3.12 Use of information resulting from stakeholder engagements.	Yes – p 2, 57 & 58
Overarching Policies and Management Systems	
3.13 Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	
3.14 Externally developed, voluntary economic, environmental, and social charters, sets of principles, or other initiatives to which the organisation subscribes or which it endorses.	
3.15 Principal memberships in industry and business associations, and/or national/international advocacy organisations.	Yes – p 21 & 22
3.16 Policies and/or systems for managing upstream and downstream impacts	
3.17 Reporting organisation's approach to managing indirect economic, environmental, and social impacts resulting from its activities.	Yes – 3, 6 & 32
3.18 Major decisions during the reporting period regarding the location of, or changes in, operations.	
3.19 Programmes and procedures pertaining to economic, environmental, and social performance.	Yes – p 32 & 33
3.20 Status of certification pertaining to economic, environmental, and social management systems.	
4 GRI CONTENT INDEX	
4.1 A table identifying location of each element of the GRI Report Content, by section and indicator.	Yes – p 60

5 PERFORMANCE INDICATORS			
Core Indicators	Reported	Additional Indicators	Reported
Economic Performance Indicators			
<u>Direct Economic Impacts</u>			
Customers			
EC1. Net sales.			
EC2. Geographic breakdown of markets.			
Suppliers			
EC3. Cost of all goods, materials, and services purchased.	Yes – p 34-36, 41 & 42	EC11. Supplier breakdown by organisation and country.	
EC4. Percentage of contracts that were paid in accordance with agreed terms, excluding agreed penalty arrangements.			
Employees			
EC5. Total payroll and benefits (including wages, pension, other benefits, and redundancy payments) broken down by country or region.	Yes – p 30		
Providers of Capital			
EC6. Distributions to providers of capital broken down by interest on debt and borrowings, and dividends on all classes of shares, with any arrears of preferred dividends to be disclosed.	Yes – p 27		
EC7. Increase/decrease in retained earnings at end of period.	Yes – p 28		
Public Sector			
EC8. Total sum of taxes of all types paid broken down by country.	Yes – p 27	EC12. Total spent on non-core business infrastructure development.	

GRI Content Index (Continued)

Core Indicators	Reported	Additional Indicators	Reported
EC9. Subsidies received broken down by country or region.			
EC10. Donations to community, civil society, and other groups broken down in terms of cash and in-kind donations per type of group.	Yes – p 28		
Indirect Economic Impacts			
		EC13. The organisation’s indirect economic impacts.	
Environmental Performance Indicators			
Materials			
EN1. Total materials use other than water, by type.	Yes – p 34, 35 & 36		
EN2. Percentage of materials used that are wastes (processed or unprocessed) from sources external to the reporting organisation.			
Energy			
EN3. Direct energy use segmented by primary source.	Yes – p 41	EN17. Initiatives to use renewable energy sources and to increase energy efficiency.	Yes – p 44 & 45
EN4. Indirect energy use.		EN18. Energy consumption footprint (i.e., annualised lifetime energy requirements) of major products.	
		EN19. Other indirect (upstream/downstream) energy use and implications, such as organisational travel, product lifecycle management, and use of energy-intensive materials.	Yes – p 39
Water			
EN5. Total water use.	Yes – p 46	EN20. Water sources and related ecosystems/habitats significantly affected by use of water.	
		EN21. Annual withdrawals of ground and surface water as a per cent of annual renewable quantity of water available from the sources.	
		EN22. Total recycling and reuse of water.	
Biodiversity			
EN6. Location and size of land owned, leased, or managed in biodiversity-rich habitats.		EN23. Total amount of land owned, leased, or managed for production activities or extractive use.	
EN7. Description of the major impacts on biodiversity associated with activities and/or products and services in terrestrial, freshwater, and marine environments.		EN24. Amount of impermeable surface as a percentage of land purchased or leased.	
		EN25. Impacts of activities and operations on protected and sensitive areas.	
		EN26. Changes to natural habitats resulting from activities and operations and percentage of habitat protected or restored.	
		EN27. Objectives, programmes, and targets for protecting and restoring native ecosystems and species in degraded areas.	
		EN28. Number of IUCN Red List species with habitats in areas affected by operations.	

GRI Content Index (Continued)

Core Indicators	Reported	Additional Indicators	Reported
		EN29. Business units currently operating or planning operations in or around protected or sensitive areas.	
<i>Emissions, Effluents, and Waste</i>			
EN8. Greenhouse gas emissions.	Yes – p 45	EN30. Other relevant indirect greenhouse gas emissions.	
EN9. Use and emissions of ozone-depleting substances.		EN31. All production, transport, import, or export of any waste deemed 'hazardous' under the terms of the Basel Convention Annex I, II, III, and VIII.	
EN10. NO _x , SO _x , and other significant air emissions by type.		EN32. Water sources and related ecosystems/habitats significantly affected by discharges of water and runoff.	
EN11. Total amount of waste by type and destination.	Yes – p 38		
EN12. Significant discharges to water by type.			
EN13. Significant spills of chemicals, oils, and fuels in terms of total number and total volume.			
<i>Suppliers</i>			
		EN33. Performance of suppliers relative to environmental components of programmes and procedures described in response to Governance Structure and Management Systems section (Section 3.16).	
<i>Products and Services</i>			
EN14. Significant environmental impacts of principal products and services.	Yes – p 48		
EN15. Percentage of the weight of products sold that is reclaimable at the end of the products' useful life and percentage that is actually reclaimed.			
<i>Compliance</i>			
EN16. Incidents of and fines for non-compliance with all applicable international declarations/conventions/treaties, and national, sub-national, regional, and local regulations associated with environmental issues.	Yes – p 18		
<i>Transport</i>			
		EN34. Significant environmental impacts of transportation used for logistical purposes.	
<i>Overall</i>			
		EN35. Total environmental expenditures by type.	
<u>Social Performance Indicators: Labour Practices and Decent Work</u>			
<i>Employment</i>			
LA1. Breakdown of workforce, where possible, by region/country, status (employee/non-employee), employment type (full time/part time), and by employment contract (indefinite or permanent/fixed term or temporary). Also identify workforce retained in conjunction with other employers (temporary agency workers or workers in co-employment relationships), segmented by region/country	Yes – p 49	LA12. Employee benefits beyond those legally mandated.	Yes – p 50

GRI Content Index (Continued)

Core Indicators	Reported	Additional Indicators	Reported
LA2. Net employment creation and average turnover segmented by region/country.	Yes – p 50		
Labour/Management Relations			
LA3. Percentage of employees represented by independent trade union organisations or other bona fide employee representatives broken down geographically OR percentage of employees covered by collective bargaining agreements broken down by region/country.		LA13. Provision for formal worker representation in decision making or management, including corporate governance.	Yes – p 14 & 56
LA4. Policy and procedures involving information, consultation, and negotiation with employees over changes in the reporting organisation's operations (e.g., restructuring).			
Health and Safety			
LA5. Practices on recording and notification of occupational accidents and diseases, and how they relate to the ILO Code of Practice on Recording and Notification of Occupational Accidents and Diseases.	Yes – p 52	LA14. Evidence of substantial compliance with the ILO <i>Guidelines for Occupational Health Management Systems</i> .	
LA6. Description of formal joint health and safety committees comprising management and worker representatives and proportion of workforce covered by any such committees.		LA15. Description of formal agreements with trade unions or other bona fide employee representatives covering health and safety at work and proportion of the workforce covered by any such agreements.	
LA7. Standard injury, lost day, and absentee rates and number of work-related fatalities (including subcontracted workers).	Yes – p 52		
LA8. Description of policies or programmes (for the workplace and beyond) on HIV/AIDS.			
Training and Education			
LA9. Average hours of training per year per employee by category of employee.	Yes – p 52, 53 & 54	LA16. Description of programmes to support the continued employability of employees and to manage career endings.	Yes – p 52, 53 & 54
		LA17. Specific policies and programmes for skills management or for lifelong learning.	Yes – p 52, 53 & 54
Diversity and Opportunity			
LA10. Description of equal opportunity policies or programmes, as well as monitoring systems to ensure compliance and results of monitoring.	Yes – p 55		
LA11. Composition of senior management and corporate governance bodies (including the board of directors), including female/male ratio and other indicators of diversity as culturally appropriate.	Yes – p 56		
Social Performance Indicators: Human Rights			
Strategy and Management			
HR1. Description of policies, guidelines, corporate structure, and procedures to deal with all aspects of human rights relevant to operations, including monitoring mechanisms and results.		HR8. Employee training on policies and practices concerning all aspects of human rights relevant to operations.	

GRI Content Index (Continued)

Core Indicators	Reported	Additional Indicators	Reported
HR2. Evidence of consideration of human rights impacts as part of investment and procurement decisions, including selection of suppliers/contractors.	Yes – p 6 & 18		
HR3. Description of policies and procedures to evaluate and address human rights performance within the supply chain and contractors, including monitoring systems and results of monitoring.			
<i>Non-discrimination</i>			
HR4. Description of global policy and procedures/programmes preventing all forms of discrimination in operations, including monitoring systems and results of monitoring.			
<i>Freedom of Association and Collective Bargaining</i>			
HR5. Description of freedom of association policy and extent to which this policy is universally applied independent of local laws, as well as description of procedures/programmes to address this issue.			
<i>Child Labour</i>			
HR6. Description of policy excluding child labour as defined by the ILO Convention 138 and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring.			
<i>Forced and Compulsory Labour</i>			
HR7. Description of policy to prevent forced and compulsory labour and extent to which this policy is visibly stated and applied as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring.			
<i>Disciplinary Practices</i>			
		HR9. Description of appeal practices, including, but not limited to, human rights issues.	
		HR10. Description of non-retaliation policy and effective, confidential employee grievance system (including, but not limited to, its impact on human rights).	
<i>Security Practices</i>			
		HR11. Human rights training for security personnel.	
<i>Indigenous Rights</i>			
		HR12. Description of policies, guidelines, and procedures to address the needs of indigenous people.	
		HR13. Description of jointly managed community grievance mechanism/authority.	
		HR14. Share of operating revenues from the area of operations that are redistributed to local communities.	

GRI Content Index (Continued)

Core Indicators	Reported	Additional Indicators	Reported
Social Performance Indicators: Society			
<i>Community</i>			
SO1. Description of policies to manage impacts on communities in areas affected by activities, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring.		SO4. Awards received relevant to social, ethical, and environmental performance.	
<i>Bribery and Corruption</i>			
SO2. Description of the policy, procedures/management systems, and compliance mechanisms for organisations and employees addressing bribery and corruption.	Yes – p 16		
<i>Political Contributions</i>			
SO3. Description of policy, procedures/management systems, and compliance mechanisms for managing political lobbying and contributions.		SO5. Amount of money paid to political parties and institutions whose prime function is to fund political parties or their candidates.	Yes – p 17
<i>Competition and Pricing</i>			
		SO6. Court decisions regarding cases pertaining to anti-trust and monopoly regulations.	
		SO7. Description of policy, procedures/management systems, and compliance mechanisms for preventing anti-competitive behaviour.	
Social Performance Indicators: Product Responsibility			
<i>Customer Health and Safety</i>			
PR1. Description of policy for preserving customer health and safety during use of products and services, and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring.		PR4. Number and type of instances of non-compliance with regulations concerning customer health and safety, including the penalties and fines assessed for these breaches.	
		PR5. Number of complaints upheld by regulatory or similar official bodies to oversee or regulate the health and safety of products and services.	
		PR6. Voluntary code compliance, product labels or awards with respect to social and/or environmental responsibility that the reporter is qualified to use or has received.	
<i>Products and Services</i>			
PR2. Description of policy, procedures/management systems, and compliance mechanisms related to product information and labelling.	Yes – p 17	PR7. Number and type of instances of non-compliance with regulations concerning product information and labelling, including any penalties or fines assessed for these breaches.	
		PR8. Description of policy, procedures/management systems, and compliance mechanisms related to customer satisfaction, including results of surveys measuring customer satisfaction. Identify geographic areas covered by policy.	Yes – p 21, 57 & 58

GRI Content Index (Continued)

Core Indicators	Reported	Additional Indicators	Reported
<i>Advertising</i>			
		PR9. Description of policies, procedures/management systems, and compliance mechanisms for adherence to standards and voluntary codes related to advertising.	
		PR10. Number and types of breaches of advertising and marketing regulations.	
<i>Respect for Privacy</i>			
PR3. Description of policy, procedures/management systems, and compliance mechanisms for consumer privacy.	Yes – p 18	PR11. Number of substantiated complaints regarding breaches of consumer privacy.	Yes – p 18

Appendix B – GRI Financial Services Sector: Social Performance Indicators

Source: Global Reporting Initiative Financial Services Sector Supplement: Social Performance, November 2002.

Social Performance Indicators (SPIs) included in Australian Ethical's 2005 Sustainability Report are shaded.

Social Performance Indicators (SPIs)	Reported
Corporate Social Responsibility (CSR) Management	
<i>Management System</i>	
CSR 1. CSR Policy: Description of social elements of the CSR policy, including corporate definition of CSR.	Yes – p 6
CSR 2. CSR Organisation: Description of the structure and relevant CSR responsibilities, including explanation of the installed procedures.	Yes – p 13
CSR 3. CSR Audits: Number of audits and auditor hours.	Yes – p 23
<i>Sensitive Issues</i>	
CSR 4. Management of Sensitive Issues: Description of the procedures for handling issues sensitive to stakeholders and responsiveness.	
<i>Compliance</i>	
CSR 5. Non-Compliance: Number of non-compliance incidents with any law or regulatory code of conduct.	Yes – p 18
<i>Participation</i>	
CSR 6. Stakeholder Dialogue: Description of stakeholder dialogue and involvement procedures.	Yes – p 20, 21 & 59
Internal Social Performance	
<i>Policy</i>	
INT 1. Internal CSR Policy: Description of social responsibility issues covered in the company's human resources policies.	Yes – p 3
<i>Employment and Social Protection</i>	
INT 2. Staff Turnover and Job Creation	Yes – p 50
INT 3. Employee Satisfaction: Employee satisfaction, based on survey results, covering: <ul style="list-style-type: none"> • job security • remuneration & benefits • work/life-balance (including work pressure and stress) • training & development • internal communication culture • company's social performance towards society. 	
<i>Compensation</i>	
INT 4. Senior Management Remuneration: Remuneration of senior management and board of directors. Includes all compensation	Yes – p 30 & 31
INT 5. Bonuses Fostering Sustainable Success: Bonuses that are not oriented purely towards short term financial success, but which contain additional sustainability elements.	Yes – 11 & 12
<i>Equal Opportunity</i>	
INT 6. Female-Male Salary Ratio: Ratio of female to male salaries including bonuses, etc. per hierarchy level.	Yes – p 56
INT 7. Employee Profile: Employee profile per hierarchy level and country according to: <ul style="list-style-type: none"> • gender • ethnicity (for countries where this issue is of high relevance) • disability 	Yes – p 56
Performance to Society	
<i>Contributions</i>	
SOC 1. Charitable Contributions: Contributions to charitable causes, community investments and commercial sponsorships.	Yes – p 28 & 70
<i>Economic Value Creation</i>	
SOC 2. Economic Value Added: 'Value added' expresses the economic value created by a company's activities.	
Suppliers	
<i>Performance of Suppliers</i>	
SUP 1. Screening of Major Suppliers: Policy and procedures to screen suppliers' social performance.	
<i>Performance towards Suppliers</i>	
SUP 2. Supplier Satisfaction: Supplier satisfaction with e.g., prompt payment, prices and treatment.	

GRI Financial Services Sector: Social Performance Indicators (Continued)

Social Performance Indicators (SPIs)	Reported
Asset Management	
<i>Policy</i>	
AM 1. Asset Management Policy (socially relevant elements): Social criteria applied by the reporting organisation in Asset Management.	Yes – p 18
<i>Fostering Social Capital</i>	
AM 2. Assets under Management with High Social Benefit: Provision of tailored and innovative products and services applying special positive ethical/sustainability criteria.	Yes – p 18–20
AM 3 SRI Oriented Shareholder Activity: Description of activities with companies invested in, where CSR issues either are raised in communications with board and management or explicitly considered when exercising shareholder rights.	Yes – p 20

Appendix C – Organisations awarded grants under Australian Ethical’s Community Grants Scheme – 2004

\$5000 Category

Salvation Army (Oasis Support Network)
The Fred Hollows Foundation

\$3000 Category

Amnesty International
Medecins Sans Frontieres
TEAR Australia
The Australia Institute
The Wilderness Society
Youth Off the Streets

\$1990 Category

Australian Marine Conservation Society
Dolphin Research Institute
Friends of the Earth
Huon Valley Environment Centre
Refugee Council of Australia
Tarkine National Coalition
Total Environment Centre
Vietnam Children's Project
World Wildlife Fund (WWF)

\$950 Category

Australia for UNHCR
Australian Bush Heritage Fund
Australian Aid for Cambodia Fund
Clean Ocean Foundation
Environment East Gippsland
Food-Share – Illawarra
GeneEthics Network
International Women's Development Agency
Margaret River Community Resource Centre
Queensland Conservation Council
Relatives & Friends of People with Mental Illness
The Coastwatchers Association
Women Refugee Education Network

Glossary

Abbreviation	Expanded name	Definition
FTE	full-time equivalent	Term used to express full-time and part-time staff on an equivalent full-time basis.
GRI	Global Reporting Initiative	This promotes international harmonization in the reporting of relevant and credible corporate environmental, social and economic performance information to enhance responsible decision-making.
J	Joule	Unit of energy.
kl	Kilolitre	1,000 litres.
KWh	Kilowatt-hour	Measure of electrical energy equivalent to a power consumption of 1,000 watts (1,000 joules/second) for one hour. Note: 1 kWh = 3.6 MJ.
MJ	Megajoule	1,000,000 joules.
W	Watt	Unit of power, equivalent to one joule per second.

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